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# MAINTENANCE OF FULL EMPLOYMENT

*(An analysis of full employment policies  
of Governments and specialized agencies)*

**UNITED NATIONS**  
**Department of Economic Affairs**  
**LAKE SUCCESS, NEW YORK**  
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## **Preface**

This report contains an analysis of the replies of Governments and specialized agencies to an inquiry of the Secretary-General concerning their plans and policies relating to maintenance of full employment and economic stability. In the appendix to this report selected replies of some Governments and of the International Monetary Fund are reproduced.

The analysis has been prepared by the Economic Stability Section of the Division of Economic Stability and Development of the Department of Economic Affairs at the request of the Economic and Social Council under resolution 104 (VI) of 3 March 1948.



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## Table of Contents

INTRODUCTION .....	1
SECTION I. REPLIES OF THE ECONOMICALLY DEVELOPED COUNTRIES BASED PREDOMINANTLY ON PRIVATE ENTERPRISE.....	8
(a) The constitutional, statutory and administrative aspects .....	9
(b) The actual and potential elements of economic stabilization .....	12
(c) The contemplated policies and measures to deal with a de- cline in effective demand .....	14
(d) The balance of payments aspects of the policies of full em- ployment .....	21
SECTION II. REPLIES OF COUNTRIES WHOSE ECONOMIES ARE CENTRALLY PLANNED AND LARGELY STATE OPERATED .....	25
SECTION III. REPLIES OF THE ECONOMICALLY UNDER-DEVELOPED COUN- TRIES .....	27
(a) The constitutional, statutory and administrative aspects.....	29
(b) The elements of economic stabilization and the contemplated policies to deal with a decline in effective demand.....	29
SECTION IV. EMPLOYMENT POLICIES IN NON-SELF-GOVERNING TERRI- TORIES .....	32
SUMMARY .....	34
APPENDIX. SELECTED REPLIES OF GOVERNMENTS AND SPECIALIZED AGEN- CIES .....	35
1. United States of America .....	36
2. United Kingdom .....	49
3. Australia .....	66
4. Belgium .....	80
5. Czechoslovakia .....	86
6. Burma .....	89
7. India .....	90
8. International Monetary Fund .....	94



**MAINTENANCE OF FULL  
EMPLOYMENT**





## Introduction

This report contains an analysis of the replies received from Governments and specialized agencies<sup>1</sup> to questions submitted to them by the Secretary-General concerning national and international action to achieve or maintain full employment and economic stability and concerning any publicly available plans to prevent a decline in employment and economic stability. At the time of the inquiry, in the middle of 1948, unemployment in most of the countries was relatively low. Indeed, inflationary pressure rather than lack of effective demand was the primary problem in most cases. The questions addressed by the Secretary-General to the various Governments dealt primarily with the problems which might be faced after the "special factors of temporary duration" of the immediate post-war period have disappeared.

In view of the slackening of economic activity and the rise in unemployment in a number of countries in 1949, the problems dealt with in this inquiry no longer relate to future contingencies but to present needs.

This study was initiated by the Economic and Social Council at its sixth session when it considered a resolution on employment referred to it by the United Nations Conference on Trade and Employment at Havana<sup>2</sup> and approved a resolution,<sup>3</sup> the relevant parts of which follow:

*"The Economic and Social Council,*

*"Taking note of the resolution unanimously adopted by the United Nations Conference on Trade and Employment on 4 February 1948,*

*"Endorses the opinion of the Conference to the effect that the studies which have been initiated dealing with the achievement and maintenance of full and productive employment should be advanced as rapidly as possible, and that attention should be given now to methods of ensuring that high levels of employment and economic activity shall be maintained even when special factors of temporary duration now prevailing in many countries have ceased to operate . . ."*

and

*"Requests the Secretary-General (a) to arrange with Members of the United Nations and, where practicable, with non-members, for the sub-*

<sup>1</sup> See documents E/1111 and E/1111/Addenda 1 through 7, United Nations.

<sup>2</sup> Document E/635, 4 February 1948.

<sup>3</sup> Resolution 104 (VI), 3 March 1948, *Resolutions adopted by the Economic and Social Council during its sixth session from 2 February to 11 March 1948.*



mission of information concerning action they are now taking to achieve or maintain full employment and economic stability and concerning any publicly available plans to prevent a future decline; (b) to arrange with the appropriate specialized agencies for reports on plans which they have prepared and resources they will have available to assist members of the agency to prevent a decline in employment and economic activity and (c) to prepare as soon as practicable an analytical report based on the information received . . .”

In implementation of item (a) of the resolution of the Economic and Social Council, the Secretariat designed a questionnaire, reproduced below, which covers the various aspects of the relevant economic policies and measures which are being taken or are proposed to be taken by individual Governments in order to maintain full employment and economic stability, or to prevent a decline in economic activity and employment in the future. In designing the questionnaire, consideration was also given to Article 55 a of the United Nations Charter, quoted below:

“ . . . the United Nations shall promote

“a. higher standards of living, full employment, and conditions of economic and social progress and development;”

and Article 56:

“All Members pledge themselves to take joint and separate action in co-operation with the Organization for the achievement of the purposes set forth in Article 55”.

Replies were requested to each question, but since the questionnaire was addressed to countries with widely differing economic systems and structures, it was anticipated that some questions might not be applicable to some countries; in such cases, it was requested that it should be stated in the reply that the question was not relevant.

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## QUESTIONNAIRE

### A

1. Has your Government made any commitments concerning policies or programmes to promote full employment and economic stability in the form of constitutional provisions, statutory provisions, Government pledges and declarations? Please send the major official documents pertaining to these commitments.

2. Has the responsibility for the implementation of a full employment programme been allocated among existing central or local agencies, or have special agencies been set up or planned for this purpose? Describe the functions of the agencies with regard to:



(a) Observation, analysis and appraisal of economic trends to determine the need for and the type, timing and magnitude of possible governmental intervention;

(b) Preparation of full employment plans, programmes or projects;

(c) Execution of such plans, programmes or projects.

Please enclose the major official documents relating to (1) the structure of the agencies including, where relevant, material pertaining to the relationship between central and local agencies, (2) analyses and appraisals of economic trends affecting the maintenance of full employment, (3) scope and magnitude of existing plans for maintaining full employment.

## B

3. Estimate the magnitude of the average total unemployment and its relation to total workers for the year 1947.<sup>1</sup> Describe the structure of the unemployment, e.g. to what extent it is due to (a) labour turnover, (b) inadequacy of materials and equipment, or (c) lack of adequate markets; to what extent it is concentrated in special industries or areas, etc.

4. What measures are being taken to eliminate unemployment?

5. (a) What elements in present Government economic policy are aimed at preventing a decline in economic activity in the future?

(b) Are there any "automatic economic stabilizers" inherent in the existing governmental economic machinery which would tend to mitigate a decline in effective demand? Do they include:

(1) Maintenance of governmental expenditures on goods and services in the face of a fall in revenue resulting from a decline in economic activity;

(2) Payment of unemployment benefits without increasing the contributions (or perhaps even reducing them);

(3) Government guarantees of prices paid to farmers;

(4) Any other measures: specify.

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<sup>1</sup> Include under total workers all hired employed persons, plus all unemployed. Should the data at your disposal correspond to a different concept, explain their coverage, for example, whether they include agricultural or domestic workers, etc.

6. Are any short or long run national economic plans (including development plans) in operation based on the full utilization of available resources? If so, explain the methods of allocation of resources and of assuring an effective demand for the commodities produced under the plan.

7. Should unemployment develop as a result of a deficiency in effective demand, what programmes and provisions are available to offset it? To what extent, if at all, do they include:

(a) Increased governmental expenditures on goods and services:

- (1) Public works and development projects;
- (2) Investment by existing publicly owned enterprises;
- (3) Other measures: specify.

Indicate the scope and magnitude of the existing programmes.

(b) Stimulating consumption through:

(1) Increased payments (in money or in kind) of allowances, benefits, pensions, etc.

(2) Subsidies with the view of reducing prices or raising wages in private enterprises;

(3) Reducing profit margins in governmental enterprises; in private enterprises;

(4) Reduction or change in structure of taxation;

(5) Other measures: specify.

(c) Encouragement of private domestic investment by:

(1) Reduction or adjustment of taxes;

(2) Facilitation of credit;

(3) Reduction of interest rate;

(4) Other measures: specify.

(d) Increasing net exports by means of:

(1) Government grants to foreign countries;

(2) Government loans to foreign countries;

(3) Encouraging private loans to foreign countries or direct foreign investment; if so, what measures are contemplated?

(4) Other measures: specify.



(e) Any other measures: specify.

8. Should a decline in effective demand develop, is it expected that steps of the type listed in question 7 above will be taken from the start or will it be possible to do so only after the fall in effective demand has developed? What are the methods for anticipating the time of the downturn and its extent?

9. If your full employment programme involves increased governmental expenditures, is it proposed to offset it partly or fully by increasing tax rates? If so, what taxes?

10. Should a budget deficit result from the full employment programmes, what limitations would be placed on the rise in the public debt (such as balancing the budget over longer periods, keeping the ratio of the national debt to the national income below a certain limit, etc.)?

11. How is it proposed to deal with the problem of the transfer of labour in case some industries or areas are hit especially hard, e.g. if industries largely dependent on exports lose their foreign markets?

12. Should an attempt to maintain full employment in the face of a decline in exports lead to balance of payments difficulties:

(a) What national measures are envisaged to deal with the problem?

(b) What type of assistance would be requested of the existing specialized agencies of the United Nations?

(c) What other international measures might render additional assistance?

13. If your Government is responsible for the administration of Non-Self-Governing Territories which are not participating in the work of the United Nations regional economic commissions, describe the policies designed to maintain full employment in these territories in the light of the above questions.

14. Comment freely on any subject relevant to the problem of achieving or maintaining full employment and economic stability which is not covered by the preceding questions.

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On 6 July 1948 the above questionnaire was sent out to the Members of the United Nations, and to the associate and participating members of the regional economic commissions. In addition, in accordance with the



instructions under item (b) of the resolution of the Economic and Social Council, the specialized agencies of the United Nations which are directly concerned with certain particular aspects of the problem of full employment were requested by the Secretary-General to submit a report on the plans which each of them has prepared and on the resources which they will have available to assist members of the agency to prevent a decline in economic activity and employment. Requests to that effect were sent to the International Monetary Fund, the International Bank for Reconstruction and Development, the Food and Agriculture Organization of the United Nations, and the International Labour Organisation. October 1, 1948, was set by the Secretary-General as a time-limit for the replies. However, by that date, only a limited number of replies was received, and the deadline was extended. By July 1949, twenty-six replies to the questionnaire had been received from the Governments of the following countries:<sup>1</sup>

- |                        |                              |
|------------------------|------------------------------|
| 1. Australia           | 14. Greece                   |
| 2. Belgium             | 15. India                    |
| 3. Bolivia             | 16. Iran                     |
| 4. Burma               | 17. Netherlands              |
| 5. Canada              | 18. New Zealand              |
| 6. Ceylon              | 19. Norway                   |
| 7. China               | 20. Pakistan                 |
| 8. Czechoslovakia      | 21. Philippine Republic      |
| 9. Denmark             | 22. Sweden                   |
| 10. Ecuador            | 23. Switzerland              |
| 11. Dominican Republic | 24. Turkey                   |
| 12. Egypt              | 25. United Kingdom           |
| 13. Finland            | 26. United States of America |

In addition to these replies, the Secretary-General of the United Nations received a brief communication from the Union of Soviet Socialist Republics to the effect that "there is no unemployment in the Union of Soviet Socialist Republics and that economic stability is ensured", and that "consequently the problem with which the Economic and Social Council resolution of 3 March 1948 mentioned in your letter is concerned, does not arise". A similar communication was received from the Government of the Byelorussian Soviet Socialist Republic. Also the Government of Iraq informed the Secretary-General that the Iraqi competent authorities are unable to provide the information required ... owing to the fact that the available statistics are inadequate".

Replies were also received from the four specialized agencies mentioned above.<sup>1</sup>

A perusal of the list of countries which replied to the questionnaire will show that it is heavily weighted with regard to economies which are

<sup>1</sup> These replies were published in full in documents E/1111 and E/1111/addenda 2 through 8; selected replies are reprinted in the appendix.



both relatively well developed and based predominantly on private enterprise. Countries whose economies are of the centrally planned socialist type, and economically under-developed countries are much less adequately represented. This has a certain logical basis. In the economies of the centrally planned type, full employment does not arise as a separate problem of economic policy, but is part of the over-all plan of utilization and allocation of national resources, of which the problem of full utilization of man-power is a particular aspect. The major unemployment problem in economically under-developed countries is the existence of a chronic state of disguised unemployment which is a particular case of the general state of under-employment of national resources. As will be seen in the analysis of the replies of these countries, unemployment through fluctuations in effective demand is not considered by them to be their primary concern, and such plans and economic policies as were formulated in the replies generally relate to furthering of economic development rather than to maintenance of full employment.

The three categories of countries indicated above served also as a basis for classification of the replies in the analysis which follows. Thus section I deals with the replies of the developed countries based predominantly on private enterprise; section II deals with the reply of Czechoslovakia as the only representative of the centrally planned socialist type of economy; and section III with the under-developed countries. In addition, section IV deals with employment policies with regard to dependent Non-Self-Governing Territories reported by some Governments.

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<sup>1</sup> These replies were published in full in documents E/1111 and E/1111/Add.1. The reply of the International Monetary Fund is reprinted in the appendix.

## SECTION I

### **Replies of the economically developed countries based predominantly on private enterprise**

This group includes Australia, Belgium, Canada, Denmark, Finland, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States.

The scope of the programmes and policies formulated by the countries in this group varies within a considerable range. Some countries report with considerable confidence about the possibility of preventing major economic set-backs. Other countries do not, for various reasons, commit themselves to such an extent. All of them, however, have in common the approach that they will attempt to counter depressions by government programmes aimed at increasing effective demand.<sup>1</sup>

In the second half of 1948 when the replies were prepared, the unemployment which existed in most countries in this group did not exceed what the Governments considered as a "normal" level. In the replies this unemployment was generally attributed to such factors as labour turnover, seasonal fluctuations, specific shortages of fuel and materials or to local conditions in certain areas. Not only was there no deficiency of effective demand in most instances, but on the contrary, inflationary pressures were still in existence. The replies to the questions relating to the problems of counteracting possible deficiencies in effective demand therefore were meant to be applied in future contingencies rather than to the situation at the time of the reply.<sup>2</sup>

The analysis of the replies which follows will be made under the following headings:

- (a) The constitutional, statutory and administrative aspects.
- (b) The actual and potential elements of economic stabilization.
- (c) The contemplated policies and measures to deal with a decline in effective demand.

---

<sup>1</sup> Although Finland states that the "formulation of eventual national measures . . . has not yet been undertaken" by its Government, it appears from the reply that the Government is aware of the necessity of such measures in the case of a decline in effective demand. Such a decline, in its opinion, would be most likely to originate through a decrease in exports.

<sup>2</sup> Even Belgium, where considerable unemployment had developed in the second half of 1948, did not directly refer to measures to be taken currently to deal with the problem.



(d) The balance of payments aspects of the policies of full employment.

(a) THE CONSTITUTIONAL, STATUTORY AND ADMINISTRATIVE ASPECTS

None of the countries in this group have constitutional provisions relating to maintenance of full employment. Norway replied, however, that a constitutional amendment on this subject is under consideration in Parliament. Commitments to a policy of full employment are, however, contained in various Government declarations, in formal statements of policy published in the form of official documents, and in legislative enactments. In the United Kingdom, Canada and Australia, the employment policies of the Governments are stated in the White Papers presented by command to Parliaments.<sup>1</sup> In New Zealand and the United States, employment policies are embodied in Employment Acts.<sup>2</sup>

There is considerable variation in the scope of the commitments undertaken by the Governments under their policy statements. The Canadian White Paper declares, for instance, that "the Government has stated unequivocally its adoption of a high and stable level of employment and income, and thereby higher standards of living, as a major aim of Government policy"<sup>3</sup>. In other cases, the policy declarations were made in more qualified terms. As an example, the preamble to the United States Employment Act of 1946 may be quoted: the Act states "that it is the continuing policy and responsibility of the Federal Government to use all practicable means . . . to co-ordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing and seeking to work, and to promote maximum employment, production, and purchasing power". The Swiss reply refers to the fact that the Constitution "confines official intervention in economic and financial affairs within narrow bounds", although it points out that a recent amendment to the Constitution enjoins the Government "to act jointly with the Cantons and private economy to prevent economic crises and when necessary to combat unemployment".

In some of the replies a further qualification is introduced, to the effect that the domestic policies of full employment may be seriously interfered with by deflationary developments abroad "imported" through the sector of foreign trade. Thus the effectiveness of the domestic policies is

<sup>1</sup> *Full Employment in Australia*, 30 May 1945; Canadian White Paper on *Employment and Income*, April 1945; United Kingdom White Paper on *Employment Policy*, Cmd. 6527, May 1944.

<sup>2</sup> The New Zealand Employment Act of 1945, and the United States Employment Act of 1946.

<sup>3</sup> White Paper on *Employment and Income*, page 23, quoted in the reply of the Canadian Government.



considered to be largely dependent on factors over which the national Governments have little control. The commitment of the Belgian Government "to ensure the highest possible level of employment" is substantially qualified by statements to the effect that "in a country like Belgium . . . the problem of unemployment is related above all to the problem of foreign trade" and that "the employment policy in Belgium is therefore essentially related to the success of foreign trade policy". The reply of the Netherlands also makes it clear that a policy of high employment will be followed "as far as international circumstances will not frustrate such a policy". On the other hand, referring to the same conditions, the New Zealand reply declares that the Government's provisions "are sufficient to insulate New Zealand's economy, at least for a period of a few years, against the worst of the possible fluctuations in more highly industrialized overseas countries". Canada states in its reply that "in view of the changing and fluctuating economic situation of today it is not possible to draw up a blueprint of all the policies needed to achieve this objective. But the Government is ready to take any measures necessary to cope with unfavourable circumstances, and is well aware that rapid, bold, and imaginative steps will have to be taken to deal with the threat of unemployment or declining incomes".

With regard to the administrative organization in the individual countries for the implementation of a full employment programme, it is frequently difficult to appraise the effectiveness of the machinery reported in the replies on the basis of available information. It is possible, for instance, that in some cases the special agencies which have been set up may have in the main very little effective power to act on recommendations or programmes, may have available inadequate operating funds, or may exist merely in the blueprint stage.

In the United Kingdom, the main responsibility for general economic policy rests with the Treasury and its Economic Planning Staff. The latter agency, in particular, acts as a co-ordinating body of the economic policies and programmes of various Ministries and is charged with the planning function. The central economic organization also includes the Economic Section of the Cabinet Office (an advisory body which keeps general economic trends under review, and advises the Cabinet on economic policy) and the Central Statistical Office. The Treasury prepares annually a White Paper on *National Income and Expenditure* and an *Economic Survey* which contains an estimate of the "full employment level of national expenditure as well as of anticipated actual expenditure" for the coming year. An annual man-power budget is also prepared which compares the demand for labour implied in the various categories of anticipated expenditure with the forecast size and distribution of the labour force.

In Norway, central economic policy is based on a national income and expenditure budget prepared by the central statistical services and a



man-power budget prepared by the Labour Directorate. These budgets are supplemented on the district levels, by half-yearly forecasts of local developments. The organizational machinery is extended here into the local levels. The Labour Directorate, which is the central executive organ in charge of implementation of the full employment policies, is supplemented on lower jurisdictional levels by district and local employment committees with advisory functions. The decentralized organization enables the central authorities to keep in close touch with local trends in the labour market and the implementation of their employment policies.

The existence of organs for the purpose of implementing or co-ordinating the national employment policies of the Government is also mentioned by Belgium, Denmark, the Netherlands, New Zealand and Sweden. These bodies are sometimes supplemented by a special agency in charge of public works, which in many countries are a key element of the contra-cyclical programmes.

In countries with a federal structure of government, the organizational machinery has to take into account the division of political power between the central government and the states. In Australia, where the responsibility for the implementation of a full employment programme is divided between the Commonwealth and state governments, an inter-governmental co-ordinating machinery has been established. There is no central agency to deal with the problem of employment as a whole, but a National Works Council has the task of establishing and maintaining a reserve of public construction projects. The financing is done through the Australian Loan Council, which determines, in co-operation with the Commonwealth Bank, the amount and allocation of the public borrowing involved.

In Canada, no governmental co-ordinating machinery exists. The agency of the central government responsible for the policies of full employment, including public investment policies, is the Cabinet Committee on Economic and Industrial Development. There are certain constitutional restrictions upon the regulatory powers of the central government in economic matters, particularly in the field of taxation and fiscal policy. The reply of the Government emphasizes, however, that "at other times when close economic integration on a nation-wide scale has made uniform government action essential to the national interest, federal and provincial governments have worked together to overcome constitutional difficulties".

The dual political set-up creates similar policy problems in the United States. The responsibility for implementing the Employment Act cited above rests with the federal government. With respect to the co-ordination of federal and state activities, the United States reply notes that "although there is no formal federal mechanism for integrating the economic activities of state and regional planning organizations with those



of the federal government, the Council of Economic Advisers has been working toward this end through close consultation with state and regional organizations". As to the existing machinery on the central government level, the reply states: "the Employment Act of 1946 established machinery and procedures for dealing with the threat of unemployment but did not prescribe any specific programme, nor has any subsequent legislation authorized any such programme for the economy as a whole". The responsibilities for implementation of the policies under the Act are divided between the President and the Congress. The President has the responsibility of transmitting to Congress periodic Economic Reports which contain economic analyses and recommendations on needed legislative action. The Act established in the Executive Office of the President a Council of Economic Advisers, which is in charge of preparing analyses of economic trends and making recommendations of policy to the President. It also set up in Congress a Joint Committee on the Economic Report which examines the Economic Report of the President and submits its own findings and recommendations to the Congress.

*(b) THE ACTUAL AND POTENTIAL ELEMENTS OF ECONOMIC STABILIZATION*

With respect to the existence of stabilizing elements in the economy, it was felt by the Governments of the countries which still maintain anti-inflationary controls that these controls constitute some protection against a slump. Representative of this view is the statement by Australia that one of the three main aspects of its present economic policy is "the control of the upward surge of inflation now so as to moderate the extent of any decline later". The reply of the United Kingdom emphasizes another aspect of this problem by stating that: "whether a decline in demand arose in this, or other, ways, a relaxation of some of the [anti-inflationary] measures already in operation would do something to remedy the situation".

Most countries emphasized the importance of "automatic stabilizers" whose function is to neutralize some of the decline in effective demand when it sets in. A number of possible stabilizers of this kind were listed in question 5 of the questionnaire.

Maintenance of public expenditures on goods and services in the face of a fall in revenue resulting from a decline in economic activity, in other words, an automatic increase in the budget deficit (or decrease in the budget surplus) was considered as one of the stabilizing devices. Most of the countries replied, in this connexion, that an automatic compensatory effect will be provided by the normal operation of the national budget. Thus the reply of the United Kingdom states that: "while there are no important elements in the expenditure of the central government



which would tend automatically to fall off in the event of a failure of total demand, revenue stands to be considerably affected, quite apart from the changes in the tax structure which might be made. Normal fiscal arrangements, though not designed for this purpose, would therefore have an automatic, and very substantial, stabilizing effect". Other countries emphasize the rigidity of current public expenditures which are to a large extent based on statutory and contractual commitments. The reply of the United States notes, for instance, that: "even though most federal expenditures are determined by annual appropriations, it is not likely that such expenditures will be reduced proportionately in case of a reduction in economic activity and revenue. Many federal expenditures are based on legislation such as for veterans' benefits, grants-in-aid to state and local governments, and interest on the public debt. These are, at least relatively speaking, 'fixed commitments' which will not automatically decline with a reduction in economic activity".

If government expenditures are maintained in the face of falling revenue, the extent of the stabilizing effect on the economy depends upon the level of taxation. This point is emphasized in the reply of the United Kingdom which states that: "as near as may be calculated, the total liabilities for tax would fall off in about equal proportion to the decline in incomes and employment. Since central government taxes now amount to about one-third of the total of personal incomes, this effect alone might offset about a third of any decline in demand that took place".

Payment of unemployment benefits, the financing of which is as a rule separated by statutory provisions from the regular budgetary accounts, has been considered by all Governments in this group as a basic element of economic stabilization. The effect of this measure depends, of course, upon the length of period during which the unemployed are entitled to benefits.

In the United Kingdom, under the scheme introduced by the National Insurance Act which has been put in operation in July 1948, a balance of receipts and payments of benefits is achieved at a level of unemployment of  $8\frac{1}{2}$  per cent. The fund operates on a surplus basis as long as unemployment is below the  $8\frac{1}{2}$  per cent level; should unemployment rise above that level, the effect of increased benefit payments would offset about one-tenth of the decline in incomes which takes place.

The reply of the United States estimates that the increase in unemployment benefits might reach an annual figure of one thousand million dollars in a mild depression (with 5 million unemployed) and two thousand million dollars in the case of a more severe depression with 10 million unemployed. The revenue from employment taxes is expected to fall but the extent of this fall will be limited because under "the experience rating feature of most state unemployment compensation



laws,<sup>1</sup> the tax rates will act perversely should an employment decline be severe and prolonged".

Most countries in this group reported the existence of measures of protection of farmers' incomes in the form of a guarantee of minimum prices on a fixed or sliding scale basis. As is well known, there are three basic methods for guaranteeing such prices: (a) subsidizing of domestic prices (b) subsidizing of export prices; and (c) government purchases of farm products. All three methods, if not financed by increased taxation, will automatically mitigate a reduction of effective demand. There is nevertheless an important difference between the first method and the other two. The second and third methods, while they mitigate the decline in effective demand and employment, at the same time maintain prices to domestic consumers at a higher level than would otherwise prevail, and thus affect real wage rates unfavourably.

The first two methods are not mentioned explicitly in the replies of the countries in this group. Although all of the countries use only the method of government purchases,<sup>2</sup> the purpose of these purchases may differ. In some countries such as Australia and New Zealand the purchases are made mainly with the view of reselling abroad. If the export prices are below the guaranteed prices, the financing of this loss is tantamount to payment of a subsidy for exports.<sup>3</sup> In other countries such as, for instance, the United States, the emphasis of the programme is to remove farm surpluses from the market in order to support the market prices received by the farmers at the guaranteed level.

The implementation of farm stabilization programmes in exporting countries during periods of depression may be facilitated by international commodity agreements. Australia emphasizes that "efforts to stabilize the income of primary producers through such means as commodity agreements have the strong support of the Australian Government".

#### (c) THE CONTEMPLATED POLICIES AND MEASURES TO DEAL WITH A DECLINE IN EFFECTIVE DEMAND

The automatic economic stabilizers discussed above serve only to mitigate the effects of depression but not to eliminate it, because they operate only when income is below the full employment level. In general the Governments in this group declare in their replies that they will not be satisfied merely with reliance upon the automatic stabilizers, but that

<sup>1</sup> Under the experience rating feature the rates levied on employers vary in inverse relation to their employment records.

<sup>2</sup> In the United States, the farm support price programme takes the technical form of crop-secured loans. However, the loans are treated as government expenditures for goods and services in the national income calculations and the commodities which secure the loans as additions to government inventories.

<sup>3</sup> In Australia and New Zealand these subsidies are paid out of funds accumulated in periods when export prices are higher than guaranteed prices.



they will take active counter-depression measures. The replies differ, however, with respect to the timing and nature of the measures as well as the degree of confidence expressed by the Governments in their ability to restore full employment in a relatively short time.

The relevant programmes are mainly based upon increased public investment in the form of a stepped-up realization of public works and other publicly financed projects. With a few exceptions, increased government expenditures on other goods and services are not considered. Stimulation of private investment and of consumption is generally given a secondary place.

Most of the countries in this group have accumulated reserves or "shelves" of public works projects to be put in operation in case of a decline in employment. The projects are generally worked out by local jurisdictions on the basis of local needs and their execution and financing are co-ordinated by a central agency. The reserves of public works arose partly from the postponement of various projects under the pressure of the inflationary situation of the immediate post-war period. In assessing the adequacy of the reserves, account has to be taken not only of their magnitude but also of such factors as the nature of the projects, the stage of planning, the timing of their execution, and the availability of funds to finance their execution at the proper time. Australia, Sweden, Norway and New Zealand reported that a substantial part of their reserve of public works projects is in a sufficiently advanced stage to be put into operation immediately as need arises. In the United States, on the other hand, while there is enabling legislation which authorizes the federal government to engage in various types of public works, the execution of the reserve of public works accumulated by the Federal Works Agency will require congressional appropriations. The United States reply mentions that only a limited amount of advanced planning of public works has been completed so far.

Contra-cyclical timing of public works is generally mentioned in the replies, and in addition some Governments contemplate a flexible operation of their long-run investment programmes related to their plans of economic development. This permits these countries to engage in compensatory public investment of diversified nature to offset a decline in employment in the corresponding sectors of private investment and thus to minimize the transfer of labour to other industries. The Australian Government refers to the programme of public investment, managed by the National Works Council, which is planned in such a way that it could be progressively brought into operation in order to offset a decline in similar types of work financed by private investment. For instance, the Australian public housing programme would be stepped up should a decline take place in construction in private housing; in the same way, a decline in private investment in industry would be compensated by government building of telephone exchanges, engineering works such as



railways, water schemes and similar projects. Canada mentions that with regard to the Dominion investment programme, it "has adopted the practice of timing its programme to complement private investment".

This technique could be applied most effectively in countries whose economies include substantial nationalized sectors. The reply of the United Kingdom, for instance, states that "the Government would be in a position to develop, subject to supplies of materials being available, the use of capital expenditure as a means of countering unemployment", and that "the Government policy will be directed toward preventing capital expenditures [by local authorities and nationalized industries] from fluctuating in sympathy with private capital expenditure". The reply mentions, however, that the effectiveness of this policy is limited first by the inevitable lag between the decline in private investment and the actual putting into effect of the compensatory investment and second, by the relative magnitude of public vs. private demand for certain types of investment goods. Thus, the reply points out, the demand for building could be stabilized more easily than the demand for engineering products.

Expansion of government purchases of non-capital goods and services was mentioned by Norway and the United Kingdom. The United Kingdom remarks that such purchases as come under the head of defence expenditures are dictated largely by non-economic considerations, but for certain types of consumption goods (boots, clothing and furniture) which the Government purchases in large quantities, it could time the placement of orders in relation to business conditions.

With regard to the stimulation of consumption, the replies generally refer, in the first place, to the various types of benefit payments and income guarantees described under the stabilization devices. Some of the countries refer in general terms to the possibilities of directly stimulating consumption. Sweden mentions a report dealing with the promotion of consumers' spending on durable goods during depressions. Switzerland states that, among other measures, it would plan to reduce prices of certain essential goods.

In general the reduction of profit margins in Government or private enterprises is not considered. Adjustment of the tax system for purposes of stimulating consumption has also generally received little consideration. The reply of the United Kingdom refers to the possible reduction of income tax rates in order to stimulate consumption expenditure, but mentions that the income tax is "an annual tax on annual incomes and therefore not a perfectly flexible device". Variations in indirect taxation are stated to be liable to "cause exaggerated and not wholly predictable fluctuations in demand for the goods directly affected". Tax credits are considered as probably the most preferable tax measure for affecting consumers' demand. Under this system a certain portion of the income tax collected during a boom would



be earmarked and released during a depression.<sup>1</sup> Norway mentions the possibility of the unfreezing of a substantial balance of private cash holdings which had been blocked immediately after the Liberation.

There is generally a reserved attitude on the part of the Governments concerning the use of tax concessions as an incentive to stimulate private investment, apparently on the assumption of a rather inelastic response of depression-minded private business to incentives of this type. Canada indicated that, in times of unemployment, it "plans to develop its fiscal policy so as to encourage the increase in private investment." In Sweden, tax exemption is granted to corporations on that part of their profits which is set aside in special investment funds subject to the condition that the timing of the investment will be controlled by the authorities. A similar fiscal device involving partial exemption from a tax on war-time capital gains is available in Norway.

In general, the reduction of the rate of interest is not presented as a major stimulating device, while grants of credit facilities are contemplated primarily in terms of assistance to small business, equipment loans to farmers and stimulation of residential construction.

With regard to increasing net exports by grants, loans, etc., only New Zealand mentions that it would consider financing some of its exports by grants of credits in domestic currency to the importing countries; it adds, however, that such a measure would be of relatively small importance. Loans from the International Bank for Reconstruction and Development may also be considered in this connexion because they increase effective demand in the countries where the proceeds of the loan are spent. The reply of the Bank points out, however, "that the Bank's primary function is to provide for a smooth and continuous flow of international investment in order to promote the reconstruction and development of its members. In the nature of things, therefore, it cannot conserve its resources simply in order to release more funds in times of incipient depression". It considers furthermore that its resources are "plainly too limited . . . to be considered a leading influence quantitatively in the anti-cyclical timing of international and domestic investment".

It may be noted that a number of countries did not list the specific measures which they might use to eliminate unemployment. The reply of the United States declares for instance that the Council of Economic Advisers has under examination "most of the measures that are listed in the United Nations questionnaire. The measures under exploration include policies designed to maintain or restore a relationship in income, prices and costs conducive to economic expansion, as well as measures designed to counteract deficiencies in effective demand".

Most of the countries had little to report concerning any plans for transfer of labour from industries or areas which would be particularly

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<sup>1</sup> In the United Kingdom such tax credits were accumulated during the war on a large scale.



affected by unemployment, for instance industries dependent on export markets. The United Kingdom reply states that "the Government does not rely primarily on large scale labour transfers for the solution of the unemployment problem of particular areas but believes in a positive policy of balanced industrial development" and that a policy of local placement aided if necessary by retraining of the displaced labour is preferred. A resettlement scheme was however introduced in 1946 under which grants and allowances are payable to unemployed labour transferred to other areas. Some other countries (Australia, Canada, Denmark, Sweden and New Zealand) have provisions for similar financial assistance. The United States reply reports that no provisions exist for grants and allowances of this kind, and that it is expected that the transferred workers would pay their own expenses.

The preceding discussion of the measures of counteracting a decline in employment and economic activity made it clear that governmental fiscal policy in the period of decline will be a basic factor in the situation. Most of these measures involve increased government expenditures, and their effectiveness is dependent to a large extent on the methods of financing which will be used. The attitude of most of the Governments on this point was to the effect that the necessary financing will be provided by expansion of budget deficits rather than by taxation, even though definite policy commitments were generally avoided. Implicit endorsements of this view are, for instance, contained in the reply of the New Zealand Government stating that "in determining the advisability of increasing tax rates, account would be taken of economic conditions at the time, having particular regard to the advisability of maintaining a high level of effective demand". The reply of the United Kingdom, without making any definite commitment on policy, recognizes specifically that "the employment effect . . . of an increase in government expenditure will normally be reduced if the expenditure is wholly or partially covered by increased tax rates". A similar statement is made by Norway, and Sweden mentions the possibilities of a flexible fiscal policy offered by the device of balancing its current budget over a cycle instead of annually. Switzerland replies in this connexion: "the prevailing opinion is that a crisis should be combatted not by a policy of retrenchment but by increased public spending and that such spending should be covered not by taxation but by a loan". In the case of the United States, it is pointed out that while "there is no legislation that determines the way in which any increases in governmental expenditures are to be financed" there exists a statutory procedure under which economic as well as budgetary conditions can be taken into consideration in the recommendations of fiscal policy made by the executive branch. Recent budget legislation was also designed so as "to assure that economic analysis could be taken into consideration in the legislative formulation of fiscal policy".



It does not appear that a policy of deficit financing would be greatly hampered by considerations of the size of the public debt. In most countries there are no statutory or constitutional limitations on the size of the debt, and it is generally pointed out that the decision of financing by deficit vs. taxes will be made on grounds other than the growth of public debt. The only statutory limitation of the public debt in absolute terms exists in the United States, whose reply states, however, that "the policy concerning the national debt will be decided according to circumstances". For the time being, the relative size of the public debt (in relation to national income) in individual countries does not appear to be a matter of concern for any of the Governments. It is not likely that the United Kingdom's qualification with regard to expansion of the public debt that "regard would be paid to the undesirability of the national debt increasing over any longer period at a greater rate than the national income" would interfere with her fiscal policy in this field in the immediate future.

We come finally to the question of timing, the importance of which from the point of view of the effectiveness of any government policies of intervention need hardly be stressed. This question presents two aspects. One is the methods used and the machinery available for forecasting the point of downturn. The second aspect is the timing of the actual measures of intervention in relation to such advance information as is yielded by the available forecasting techniques.

With regard to the first point, it appears from the replies that no specific forecasting index is used, nor is it considered that there is any specific method whereby it would be possible to anticipate with certainty the movement of employment. The United States reply, in particular, states that "in the light of present knowledge and techniques the Council [of Economic Advisors] found it more fruitful to concentrate on an analysis of actual or threatening basic maladjustments in the economy and the exploration of remedial programmes rather than to attempt forecasts of the exact turning points". In general, the Governments would depend on surveys and analyses of economic trends at home and abroad regularly made by their general statistical services, or in some cases, by special research agencies which are part of the organizational set-up of the full employment machinery. In countries which maintain some measure of over-all economic planning, attention is given to the interrelated trends in the items of the national economic accounts. As has been mentioned previously, in the United Kingdom anticipated national expenditure is compared with the full employment level of national expenditure in the period concerned. Australia mentions that its Bureau of Census and Statistics is developing a system of social accounts which will enable it to forecast general economic trends on the basis of anticipated changes in a few key components, such as investment, prices and employment.



The sectors of private investment and foreign trade are especially closely surveyed by some Governments. In the United Kingdom the Government considers supplementing its annual reviews of investment programmes and currently available information on the orders on hand of manufacturers of plant and machinery by direct industry inquiries concerning anticipated investment plans. Australia likewise mentions the introduction of a method of direct inquiry whereby firms are asked to report their expenditures on building, plant and machinery during the preceding six months and anticipated outlays for the next two six-month periods. Fluctuations in exports are studied by close checking of the relevant economic indices in the export sectors of the economy. New Zealand, in particular, makes the point that the effectiveness of its measures to check an over-all deterioration of the economy as a result of unfavourable developments abroad will depend essentially on how early a decline in employment will be detected in the "sensitive" industries dependent on exports. In addition, advance guidance is sought by keeping under close check changes in economic conditions abroad, in particular as they relate to the exported commodities. The uncertainty of forecasting in this field is stressed, however, even by the United Kingdom, whose export "targets" are the closest approach to translating export forecasts into practical economic policy.

The second point relative to the expected timing of the measures of intervention has been to some extent covered in the earlier discussion of the general approach of individual Governments to the policy of intervention, and in the analysis of individual measures. It appears that Australia, Canada, New Zealand, Norway, Sweden and the United Kingdom intend to put into operation corrective machinery at an early stage as soon as a decline in effective demand has been detected.

Denmark, on the other hand, argues that its economy is affected to an unusual degree by deflationary developments abroad, over which it has little control, and that a decline in employment may therefore be expected to be under way before appropriate steps could be initiated. The Belgian reply considers that it is advisable to undertake corrective measures only after the decline in demand has developed to a certain extent in order to be certain "that there is in fact a trend". The Netherlands goes further to state that "it is considered healthy for the Netherlands economy, in particular for labour productivity, to admit a slight degree of deflation before initiating anti-depression policies". At the time of the reply, the anti-deflationary programme of the Government and the machinery for its implementation were still in a tentative and blueprint stage.

The reply of the United States makes it clear that "the actual dearth of approved programmes designed specifically to offset possible deficiency of effective demand implies no lack of purpose to provide such programmes in case of need. The Employment Act of 1946 implies the



contrary". It goes on to add: "If the need is demonstrated by the course of events, additional legislative action setting up the necessary programmes or appropriations will be called for". It is clear that the proper timing and scope of government action, and ultimately its effectiveness in checking the development of a cumulative deflationary process, will depend on how soon and how much legislative action of the appropriate kind will be forthcoming when the situation arises.

(d) THE BALANCE OF PAYMENTS ASPECTS OF THE POLICIES OF FULL  
EMPLOYMENT

The problem of maintaining full employment is closely interrelated with the problem of the balance of payments:

Disequilibria in balance of payments are bound to arise if individual countries attempt to engage in policies of full employment in the face of persistent deflationary pressures from abroad due to the failure to maintain full employment in other countries. The maintenance of a high level of effective demand and consequently of a high level of imports in the face of declining exports will result in balance of payments difficulties. If an adequate safety margin in the form of reserves of gold and foreign exchange is available, then the gap in the balance of payments may be covered by drawing upon these reserves, and full employment may be maintained by the measures considered above. If such reserves are not available, however, or are exhausted after a shorter or longer period, the persistent disequilibrium in international payments, unless relieved by foreign lending, may interfere seriously with the carrying out of the domestic full employment policies.

A situation of this kind was considered a potential threat to their economies by all Governments of this group, except the United States. One approach to the problem was to suggest the necessity of co-ordinated action on the international level aimed at the maintenance of a high and stable level of employment and effective demand in all countries. The reply of the United Kingdom points out that "it would be of great assistance to the United Kingdom in the pursuit of full employment at home if other countries also were able to maintain a high and stable level of domestic demand", and states the willingness of the Government of the United Kingdom to co-operate in some "fruitful international action". The reply of Australia also states that "generally, the maintenance of employment and of continuous programmes of development throughout the world would assist the implementation of a full employment policy in any one country".

A second possibility is a corrective action on the international level in the form of financial assistance by the International Monetary Fund and the International Bank for Reconstruction and Development. Some of the countries indicated that they would have recourse, if necessary, to



such facilities of these organizations as would be available. The position of the Fund and the Bank concerning the extent to which they would be prepared to grant assistance to member Governments, and resources which they would have available for that purpose are outlined in their replies to the Secretary-General. The Fund recognizes that under its statutes "it is . . . authorized to make its financial resources available to members under adequate safeguards, and thus to provide them with the opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity". It states, however, that its resources are intended primarily to relieve temporary disequilibria in the balance of payments of its members pending necessary adjustments and that its means of action are not "instruments to be kept in reserve until an emergency arises when some widespread threat of a decline in employment and economic activity may seem imminent". It adds that "the resources of the Fund are not and cannot be large enough to give all its members the assurance simultaneously that in the event of a world crisis sufficient finance of the kind which they urgently need will be available to afford complete protection against balance of payments pressures". As has been previously noted, the reply of the Bank likewise emphasizes that the nature of its functions basically precludes the use of its available funds on a contra-cyclical basis.

Should appropriate action on the international level prove impossible or ineffective, restriction of imports was contemplated by most Governments. Only Australia and Belgium refer specifically to the possibility of devaluation of currency, in order to meet their balance of payments difficulties. In addition, Canada, Denmark and New Zealand mention the stimulation of exports without indicating the specific measures by which exports might be increased.

With respect to restriction of imports the Governments generally stressed the fact that any such measures would be taken within the limitations arising under their international commitments. The provisions relative to exchange and trade practices of the charters of the International Monetary Fund and the proposed International Trade Organization contain, however, a number of qualifying clauses, under which restrictive policies by member Governments with regard to imports and foreign exchange are admitted under certain conditions.<sup>1</sup>

<sup>1</sup> Under the Articles of Agreement of the International Monetary Fund, the Fund can authorize a member to impose temporary limitations on the freedom of exchange operations in a scarce currency (scarce currency clause, article VII, section 3), and the provision relative to avoidance of discriminatory currency arrangements or multiple currency practices makes allowance for exceptions subject to approval by the Fund (article VIII, section 3). Furthermore, the members may maintain or introduce in the post-war transitional period, restrictions on payments and transfers for current international transactions (article XIV, section 2). Under the Final Act of the United Nations Conference on Trade and Employment, article 6 on "Safeguards for Members subject to External Inflationary or Deflationary Pressure", provides that "in case of deflationary pressure special consideration shall be given to the consequences for any



The implications of import restrictions used to offset a decline in exports require some elaboration. If the restriction of imports leads to increased output in the domestic industries which are competitive with the imported goods, the restriction may solve not only the balance of payments problem but also the problem of maintaining full employment in the face of the reduced volume of demand from abroad. (The effects of possible retaliation by other countries will be considered below.) There may, however, be some loss of real income as a result of the shift in production, despite the maintenance of full employment. In this connexion it should be noted that the Governments envisage selective import controls with the view of confining the restrictions to less essential goods.

Should a country find it necessary to reduce imports of essential food and raw materials the problem may become acute. While full employment might still be maintained, e.g. by public works which do not require imported raw materials, the standard of living would fall considerably. This point is discussed in the reply of Norway.

Import restrictions in one country may lead to retaliatory measures in other countries. Should the country from which the deflationary pressure spread through the reduction of its imports also resort to retaliation, then no equilibrium in the balances of payments would be possible. Should this country, however, not resort to retaliation because the restrictions imposed by the other countries reduce its exports only to the extent to which its imports fell, then a new equilibrium in the balance of payments would be possible. The achievement of such an equilibrium might, however, involve a considerable reduction in world trade, inclusive of trade with third countries.

The degree to which trade with third countries would be affected would depend upon the nature of the import restrictions, and of other measures that might be associated with them. Import restrictions may be selected with respect to commodities in such a way as to concentrate their effect upon the country which initially reduced its imports: Canada for instance reports that it applied this method in dealing with balance of payments difficulties which arose in a different context in 1947. It imposed import restrictions on a selective commodity basis in such a way as to reduce imports from the United States. Selective import restrictions may be even directly aimed against the country from which the deflationary pressure spread. Thus Denmark states that in the last resort

member of a serious or abrupt decline in the effective demand in other countries". More specifically, article 20 of this Act, which provides for general elimination of quantitative restrictions on imports, contains an exception clause under which import restrictions on products of agriculture or fisheries "may be established if they are necessary to the enforcement of governmental measures which operate effectively to restrict the quantities or to remove a temporary surplus of the like domestic product or domestic products for which the domestic product can be directly substituted". A further exception is provided in article 21 under which, subject to certain provisions and under certain conditions, "any member, in order to safeguard its external financial position and balance of payments, may restrict the quantity or value of merchandise permitted to be imported".



it "might find it necessary to reduce imports from the countries of whose currencies it was short" and the Netherlands refers in this connexion to the scarce currency clause of the International Monetary Fund.

Finally, restrictions directed against imports from one country may be associated with an increase in trade conducted on the basis of bilateral or multilateral agreements with other countries. Although many such agreements are in existence there is in general no reference to such measures in this connexion. Switzerland, however, states in its reply that "our unfavourable balance of trade has risen appreciably owing to the decline in Swiss exports and to the efforts made by other countries to export increasing quantities of goods to Switzerland. We are therefore obliged to continue to place our relatively high purchasing power at the disposal of our export policy, i.e. where necessary, to guarantee bilaterally the importation of a large variety of items in exchange for similar guarantees for our own exports".

## SECTION II

### **Replies of countries whose economies are centrally planned and largely State operated**

In economies of this type, full employment is part of general economic planning entailing full utilization of national resources. The responsibility for carrying out the planned programmes also lies directly with the State itself, which operates a large part of the economy. The policies of full employment are thus essentially different from those which are appropriate in economies where production and investment are carried out predominantly through the channels of private enterprise.

Among the countries which replied to the questionnaire, the Union of Soviet Socialist Republics, the Byelorussian Soviet Socialist Republic and Czechoslovakia belong to this category. As has already been stated, the replies of the Union of Soviet Socialist Republics and the Byelorussian Soviet Socialist Republic are limited to brief formal statements to the effect that "there is no unemployment" (in their respective countries) and that "economic stability is insured". The only substantive reply in this category is that of Czechoslovakia.

The Czechoslovak Government states in its reply that it has undertaken commitments to promote full employment and economic stability under the Constitutional Charter of the Czechoslovak Republic of 9 May 1948. These commitments are closely connected with the general economic plan, namely the Five Year Economic Plan, which provides for "a steady expansion of the Czechoslovak economy and its resistance to influences of economic crises". The agencies responsible for the implementation of this plan are the Economic Council, the State Planning Office, all the Ministries concerned with economic matters and their subordinate offices.

Practically no unemployment existed in Czechoslovakia, and no unemployment as a result of deficiency in effective demands was anticipated, as under the conditions of the Czechoslovak economy "all economic activity is directed towards maximum economic operation". In a planned economy, the planning of investment and the production of consumption goods and services are parts of the general economic plan of allocation of resources, while the maintenance of an adequate level of effective demand for the output of the consumption goods and services is insured through the planning of prices and incomes. The reply points out that such



unemployment as may occur as a result of shifts in demand for labour in some branches or areas of the economy would be taken care of by appropriate regulation of the labour market and redistribution of labour into other occupations. A more serious potential source of disturbances is the sector of foreign trade which is the vulnerable spot in the planned programme of full employment. Non-fulfilment of the planned programmes of imports of raw materials and exports of finished goods may result in unemployment in the affected branches of the economy. The non-fulfilment of the export programme would also result in balance of payments difficulties. The reply states that this danger is reduced because a large part of foreign trade is with other planned economies. For such difficulties in foreign trade as would occur "remedy would be sought in a suitable amendment of the plan. What means would be used to this end would depend on the particular case; planned economy possesses the widest possibilities in this connexion".

### SECTION III

#### **Replies of the economically under-developed countries**

This group includes Bolivia, Burma, Ceylon, China, Ecuador, the Dominican Republic, Egypt, Greece, India, Iran, Pakistan, the Philippine Republic and Turkey.

The general approach of the economically under-developed countries towards the problem of full employment, as reflected in their replies, can be described as follows: Unemployment through fluctuations of effective demand is not a matter of primary concern for economically under-developed countries. The major problem is the existence of a chronic state of under-employment of available man-power, owing to the low level of economic development. This appears in the form of disguised unemployment in agriculture and in industry (a high proportion of which is still in the handicraft or cottage stage) with resulting low productivity of labour and depressed standards of living.

The wide prevalence of under-employment makes the definition of unemployment in such countries rather difficult. When there is a decline in the demand for labour in industry, some of the labour is likely to fall back on subsistence farming. Thus, visible unemployment is reduced, and the extent of the increase in unemployment is concealed by the increase of disguised unemployment in agriculture. Hence the statements of Bolivia and Egypt to the effect that these countries have no unemployment problem. In the case of Bolivia it is explained that "in the mining industry, which is Bolivia's basic industry, there is a constant turn-over of workers since many of them are peasants and regularly alternate between farm work and work in the mines". A converse case in which visible unemployment is increased through a reduction in disguised unemployment is presented by the increase in unemployment in a few countries of this group in the post-war years, following the demobilization of their military personnel. The war-time recruitment into the armed forces and the increase in employment in war industry had siphoned off some of the under-employment in the rural areas. After the war some of the former disguised unemployment in agriculture emerged as visible unemployment in the cities. In addition in some countries there was a decline in industrial employment resulting from war devastation and post-war dislocations. These factors account for the significant unemployment in a number of under-developed countries.



The elimination of "structural unemployment", disguised or in some instances visible, by means of economic development is considered the most urgent goal by the countries in this group. This approach is explicitly stated in the replies of Burma and India. The reply of Burma states: "The questionnaire is designed primarily for the problem of unemployment in industrially developed countries and is only remotely related to such problems of an industrially backward country like Burma. The so-called 'unemployment' in Burma is not in the nature of mass unemployment caused by a lack of effective demand, but is merely in the nature of frictional and structural unemployment caused by the economic dislocation after the war. Another type of unemployment which, though not emphasized by the questionnaire, is nevertheless very important to Burma, namely disguised unemployment in agriculture . . ." The Indian Government declares in the preamble to its reply that "though they (the Government) have accepted certain commitments . . . to provide full employment to the greatest possible extent they do not have any specific employment programme" but "they are mindful of the necessity of utilizing all resources for the development of the country and for raising the standard of living of the people".

Countries of this group which are producers of primary raw materials do, however, face a problem of imported cyclical unemployment when deflationary pressure from industrialized importing countries is transmitted to them through the channels of foreign trade. The primary fall of incomes and, generally, also of employment in the export sector is followed by secondary repercussions in the rest of the economy and results in a decline in effective demand and employment of the kind envisaged in the questionnaire. As a rule, no effective mechanism of stabilizing the incomes of the agricultural producers by means of government price and output guaranties, is available or is considered in these countries. Instead, some countries considered that a solution should be sought in diversification of output so as to make the domestic economy less vulnerable to the impact of deflationary pressures coming from the outside. The reply of Ceylon, a country whose economy is predominantly based on exports of a few raw materials (rubber, copra) contains the following statement: ". . . about 80 per cent of the people are employed either directly or indirectly in the production and handling of [these] exports. Slight changes in the price or volume of exports of any of these products have therefore serious consequences on the employment of the people. The Government therefore finds it extremely difficult to maintain a policy of full employment in view of these circumstances. It has therefore been laid down that the most important object of the present Government was the attainment of a more balanced economy which will not be so dependent on external factors".

The possibility of a cyclical decline in effective demand and employment induced by domestic factors was not considered in any of the replies in this group. While autonomous deflationary movements of this



kind may occur in industrially under-developed countries, the effect of purely domestic deflationary factors was apparently considered to be of slight importance compared to potential deflationary pressures imported from abroad.

These preliminary remarks are intended as a background for the brief analysis of the replies which follows.

**(a) THE CONSTITUTIONAL, STATUTORY AND ADMINISTRATIVE ASPECTS**

Constitutional and statutory provisions relating to employment are either non-existent or stated in general terms which do not commit the respective Governments specifically to an active policy of ensuring full employment. The references to the subject of full employment in the Constitutions of China and India which are quoted in the replies are couched in more or less general terms. Article 15 of the Constitution of the Chinese Republic states that "The State shall provide persons capable of work with suitable opportunities for work". The Government of India in its draft Constitution provides (chapter VII, paragraph 31) that "The State shall, in particular, direct its policy towards securing that the citizens, men and women equally, have the right to an adequate means of livelihood". The reply of Pakistan also mentions that in its recent official declaration on industrial policy the Government stated its aim of "providing gainful and legitimate employment to the people of Pakistan", and the reply of Ceylon states "that it has generally been made clear that the Government's intention is to promote full employment".

No specific administrative machinery to implement a full employment programme is generally available. As a rule, the countries reported the existence or the setting up of employment exchanges, placement and vocational training and resettlement services and similar agencies whose function is obviously limited to the administration and regulation of the labour market in order to mitigate the effects of frictional unemployment.

**(b) THE ELEMENTS OF ECONOMIC STABILIZATION AND THE CONTEMPLATED POLICIES TO DEAL WITH A DECLINE IN EFFECTIVE DEMAND**

The part of the questionnaire relative to measures designed to prevent a decline in effective demand or to mitigate such decline when it sets in, received a sketchy treatment.

"Economic stabilizers" are of no great importance in these countries. In general, there are no state schemes of payments of social benefits of any kind. Price and income guarantees to agricultural producers are either non-existent or of limited application and effectiveness. Specifically, government guarantees of prices of some domestically consumed agri-



cultural products, including rice, exist in Ceylon. The government marketing department buys the produce from the farmers at a guaranteed price and resells it to the consumer. Any loss incurred in the operation is borne by the Government, which means that in the latter case the guarantee is combined with a subsidy to consumers. Ceylon also reports a guarantee of minimum export prices for copra which is based on a purchase agreement with the United Kingdom. In India, a price guarantee for sugar cane has been operating for some time since before the war, and the Government has guaranteed to support cotton prices by a purchase programme if prices fall below the guaranteed level.<sup>1</sup> Greece has also indicated the existence of minimum price guarantees of agricultural products. The point was made earlier that the effectiveness of any guarantees of this kind as economic stabilizers depends essentially on the methods of financing which are adopted.

The countries of this group had also little to report with respect to advance planning of contra-cyclical action. Aside from the fact that cyclical unemployment was not considered to be a major policy problem, the immediate economic policies were dominated in most countries by the inflationary pressures of the post-war period. "The question of a deficiency of effective demand", states the reply of the Indian Government, "has not so far arisen in India . . . The gap between spendable income which is growing and the volume of goods which is dwindling is widening every day . . . No great danger exists for the present at any rate of unemployment developing as a result of a decrease in demand, and the need for drawing up programmes to offset such unemployment has therefore not been felt". Only the Philippine Government's reply mentions the possibility of increased government expenditures in the face of a decline in effective demand. This would be accomplished by a "flexible" management of the budget.<sup>2</sup> The reply mentions the existence of a comprehensive programme of public works and other public investment which is linked to the general industrialization programme of the Philippine Government. It includes investment by government-owned industrial corporations and "the setting up of government enterprises in fields where private capital is reluctant to venture".

Some countries refer to the possible use of various tax concessions to provide encouragement to private investment. In the Philippine Republic, the maintenance of the existing low level of taxation is considered

<sup>1</sup> The Indian Government also has under consideration a comprehensive scheme of price guarantees for food grains and other commercial crops, including a system of buffer stocks financed by a commodity corporation to be set up for that purpose.

<sup>2</sup> The reply specifies that this would be accomplished by shifting appropriations from low priority and other "unessential" budget items to public works and "other expenditures that would offset deficiency in effective demand". This means that the increase in expenditures would be offset at least partially by retrenchment of government spending in other sectors which weakens considerably the contra-cyclical effect of the expenditures.



essential in order to create a favourable climate for private investment, together with such incentives as low interest rates and a liberal credit policy. A number of other Governments emphasize their intentions to provide a favourable fiscal climate to promote investment from domestic and foreign sources.

It should be noted that the measures mentioned in the replies for stimulating private investment as well as for increasing expenditures on public investment are related primarily to the general development programmes.<sup>1</sup> The possibilities of contra-cyclical timing of these measures, are generally given secondary emphasis, when recognized at all. It should be pointed out, however, that the vigorous execution of general development programmes may serve as an important stabilizing element in the economy and thus reduce the effect of cyclical fluctuations.

The attempt to continue development programmes in the face of a decline in the volume of exports may confront the under-developed countries with balance of payments difficulties similar to those mentioned above in connexion with the consideration of full employment policies in industrialized countries. It appears that if faced with such difficulties, most of the Governments of this group expect to make use of import restrictions, and some, namely India, Greece and the Philippine Republic, would solicit assistance from the international specialized agencies. Finally China and the Philippine Republic consider that recourse would be taken to commodity and trade agreements. The point is also made by a number of countries that, in the longer run, economic development and diversification of production may render the under-developed countries less vulnerable to fluctuations in foreign demand.

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<sup>1</sup> The existence of national plans of development, of a more or less ambitious scope, bearing upon rehabilitation of agriculture and expansion of the industrial sector is reported by the Dominican Republic, Egypt, Greece, India, Iran and the Philippine Republic. Except for India, which submitted an outline of her economic plan, the plans were described in very general terms, and several of them do not seem to have progressed beyond the blueprint stage.



## SECTION IV

### Employment policies in Non-Self-Governing Territories

The basic economic conditions in Non-Self-Governing Territories are essentially those of under-developed areas and are characterized by a lack of productive equipment in relation to the available man-power, low productivity of labour and depressed standards of living which are often at the subsistence level. There is a wide prevalence of disguised unemployment, as a result of which the problem of unemployment in these areas takes on the character which was discussed in the section dealing with the under-developed countries. Australia for instance mentions that "the economy of the Non-Self-Governing Territories of the Commonwealth is largely subsistence agriculture and the maintenance of full employment in these areas is not therefore a problem", while New Zealand declares that "the questionnaire in its terms is hardly applicable to the special conditions in the Non-Self-Governing Territories for which New Zealand is responsible". That a "solution" of the unemployment problem in these areas is provided by the shock absorbing effect of agriculture was mentioned in the reply of the United Kingdom which states that: "urban populations are relatively small and even urban dwellers retain tribal connexions which, in the main, enable them to return immediately to their villages and support themselves by agriculture when other forms of work are not available. In this type of community, therefore, there is no real unemployment problem".

The reply of the United Kingdom mentions, however, that substantial unemployment exists in some of the areas, namely in some of its West Indian territories, especially Jamaica, and in some coastal towns of West Africa. This unemployment is due, aside from the natural increase in population, to an accelerated drift from rural to urban areas, and to the discharging of a considerable number of persons who had been engaged in war service or special war work. The latter two factors "changed the problem from one of under-employment in agriculture to one of urban unemployment". The reply calls attention to a number of long-run programmes for agricultural and industrial development jointly sponsored by the United Kingdom and local governments, and encouragement of private investment by local capital. It adds that some measures of stabilization of farmers' incomes were taken by the local governments in the form of central marketing arrangements for the most important products. These arrangements include long-term selling contracts and price guarantees through the operation of stabilization funds.

The United States reply does not give the magnitude of unemployment in its non-self-governing areas, but it mentions that "the problems of maintaining full employment are probably most difficult in Puerto Rico". The reply refers to development programmes in Puerto Rico and the Virgin Islands and to the existence of some automatic stabilizers in several of its territories. In Hawaii and Alaska unemployment insurance is administered under local legislation similar to that of the states. In Puerto Rico, "various United States Department of Agriculture programmes operate, including agricultural price support for sugar".

Belgium and the Netherlands did not reply to the question concerning the Non-Self-Governing Territories.



## Summary

The countries which are primarily interested in counteracting cyclical depressions are the developed countries with predominantly private enterprise systems. In centrally planned socialist countries the problem of maintenance of full employment is an integral part of general economic planning. In under-developed countries and Non-Self-Governing Territories the problem of cyclical unemployment is overshadowed by the enormous problem of disguised unemployment which may be eliminated only by economic development.

The developed countries that are based predominantly upon private enterprise emphasize the mitigating effect in periods of declining economic activity of automatic stabilizers such as payment of unemployment benefits during a slump, guarantees and support of farm prices, and the maintenance of relatively rigid government expenditures in the face of reduced revenues.

The developed countries also generally declare that they will not be satisfied merely with the mitigation of depression as a result of the automatic stabilizers, but that they will also venture into active counter-depression measures. Although various measures of this sort are taken into consideration, the most frequently mentioned is public investment financed by government borrowing. The problem of the timing of counter-depression measures, however, is in a number of cases treated rather vaguely and it is therefore not clear at what stage of the slump the countries concerned will resort to such measures.

All countries except the United States expressed their concern over balance of payments difficulties which would arise if they attempted to maintain full employment in the face of a decline in the foreign demand for their products. Most of the countries indicated that under such circumstances they would sooner or later have to resort to import restrictions. The ultimate effect of such restrictions upon the volume of world trade, the structure of production and the standards of living of the countries affected will depend upon (a) the nature of the import restrictions that are selected and (b) the extent to which these are countered by protective or retaliatory measures, especially on the part of the countries which generated the deflationary pressures.

The International Monetary Fund and the International Bank for Reconstruction and Development consider that their financial resources are insufficient in the event of a world crisis to afford widespread protection against balance of payments pressures.



## APPENDIX

### Selected replies of Governments and specialized agencies

The full replies of all countries and specialized agencies to the employment questionnaire have been published in Economic and Social Council documents E/1111 and E/1111/Add.1 through 8. In this appendix, only the following selected replies are reproduced: the United States of America, United Kingdom, Australia, Belgium, Czechoslovakia, Burma and India, and the International Monetary Fund. These have been chosen so as to represent all the types of replies that were received.

The *United States* is in a category apart both because of its importance in the world economy and because it is not faced with potential balance of payments difficulties in carrying out a full employment policy. For the *United Kingdom* such difficulties are a very important problem. The United Kingdom also differs from the United States in that it has a more fully-developed governmental machinery for the implementation of a national employment policy. The replies of Sweden and Norway fall essentially in the same class as that of the United Kingdom. *Australia* has many features in common with the United Kingdom. The essential difference between them is that Australia depends to a large extent upon exports of agricultural commodities. Canada and New Zealand belong roughly to the same category. *Belgium*, which also depends to a great extent on foreign trade, has been chosen because of the qualifications which it placed upon its anti-depression policy, especially with regard to timing. On this latter point, the replies of the Netherlands and Denmark are similar to that of Belgium. *Czechoslovakia* represents the centrally planned socialist economies; *Burma* and *India* represent the under-developed countries. The reply of the *International Monetary Fund* has been selected because among the specialized agencies it appeared to have the most significant role in assisting countries to prevent a decline in employment and economic activity.

The replies reproduced here contain a number of minor editing changes. Several annexes which are submitted with the replies have been reprinted only in part. References to lists of publications and other documentation submitted with the reply have been eliminated. Technical details, such as tables giving monthly unemployment data for 1947, have also been omitted. Where necessary, appropriate footnotes have been inserted.



## 1. Reply of the United States of America

### REPLY TO QUESTION 1

The Government of the United States has adopted the *Employment Act of 1946* which, in section 2, contains a policy declaration of the Federal Government stating "that it is the continuing policy and responsibility of the Federal Government to use all practicable means . . . to co-ordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power".

Besides the *Employment Act of 1946*, reference should be made to international agreements, particularly to the declarations in Articles 55 a and 56 of the United Nations Charter, and the resolution adopted by the United Nations Conference on Trade and Employment which is referred to in resolution 104 (VI) of the Economic and Social Council to which this is an answer.

### REPLY TO QUESTION 2

The main responsibilities for carrying out the purposes of the *Employment Act* rest with the President and the Congress. The President has the basic responsibility of transmitting to Congress economic analyses and making recommendations for needed legislative action (through the Economic Reports of the President required under that Act), and of supervising the execution of economic programmes. The Congress is committed to examine the President's Economic Reports and take legislative action that it deems necessary for promoting "maximum employment, production, and purchasing power" as defined in the Act.

Several of the existing departments and agencies, and particularly the Federal Reserve System, have responsibilities with respect to the formulation and execution of programmes and policies that have a bearing on the level of employment and production. *The Employment Act* created, however, two special agencies to assist the President and the Congress in the task of implementing the purposes of the Act. These agencies are:

A. The Council of Economic Advisers, consisting of three members and a small professional staff, established in the Executive Office of the President;

B. The Joint Committee on the Economic Report, composed of seven members of the Senate and seven members of the House of Representatives.

Most of the States have special legislation that makes it the duty of one of the State agencies to concern itself with the problems of economic



development and employment. Also, regional agencies comprising several States have been formed for this purpose. Although there is no formal Federal mechanism for integrating the economic activities of State and regional planning organizations with those of the Federal Government, the Council of Economic Advisers has been working toward this end through close consultation with State and regional organizations.

(a) It is one of the functions of the Council of Economic Advisers "to gather timely and authoritative information concerning economic developments and economic trends, both current and prospective, to analyse and interpret such information in the light of the policy declared in section 2 for the purpose of determining whether such developments and trends are interfering, or likely to interfere, with the achievement of such policy, and to compile and submit to the President studies relating to such developments and trends". (See section 4 (c) of the *Employment Act of 1946*.) The Council of Economic Advisers, in exercising its functions, is authorized by the law to constitute advisory committees representing industry, agriculture, labour, consumers, State and local governments, and other groups. See section 4 (e) of the *Employment Act of 1946*).

It is one of the functions of the Joint Committee on the Economic Report to make a continuing study of matters relating to the Economic Report which includes the observation, analysis and appraisal of economic trends and the study of the need for government economic programmes. See section 5 (b) (1) of the *Employment Act of 1946*.) The Joint Committee, in the pursuit of its studies, is authorized to hold hearings and to use the advice of experts. (See section 5 (d) of the *Employment Act of 1946*.)

(b) The Council of Economic Advisers also has the function: "To appraise the various programmes and activities of the Federal Government in the light of the policy declared in section 2 for the purpose of determining the extent to which such programmes and activities are contributing, and the extent to which they are not contributing, to the achievement of such policy, and to make recommendations to the President with respect thereto;

"To develop and recommend to the President national economic policies to foster and promote free competitive enterprise, to avoid economic fluctuations or to diminish the effects thereof, and to maintain employment, production, and purchasing power". (See section 4 (c) (3) and (4) of the *Employment Act of 1946*.)

With the assistance and advice of the Council, the President prepares the Economic Report and such supplementary reports as he may deem desirable to achieve the purposes of the Employment Act. In preparing the Economic Report of recent years, the President has been aided by members of the Cabinet and heads of independent agencies in addition to the Council.



The Economic Reports and supplementary reports are transmitted by the President to Congress and are referred to the Joint Committee on the Economic Report. The Joint Committee has the function "to study means of co-ordinating programmes". (See section 5 (b) (2) of the *Employment Act*.) It examines the President's Economic Reports and submits its own findings and recommendations to the Senate and House of Representatives as a guide to the work of the several legislative committees of Congress dealing with legislation necessary for carrying out the policy of the Act. The Joint Committee has a small professional staff which keeps in close contact with the staff of the Council of Economic Advisers.

(c) Responsibility for the execution of economic programmes rests with the various executive agencies of the Federal Government, or with State and local governments concerning matters under their jurisdiction. For the co-ordination and execution of Federal programmes the President has at his disposal the Cabinet or Cabinet committees, or he may call upon the various agencies in his Executive Office for assistance.

#### REPLY TO QUESTION 3

Unemployment in continental United States in calendar year 1947 averaged 2,141,000. This figure is an average of the volume of unemployment found in twelve surveys of the labour force, as conducted by the Bureau of the Census for one week out of every month. This figure may be compared with a total labour force of 61.8 million, and a total of hired workers plus unemployed of 43.8 million.

"Unemployed persons" include those who did not work at all during the survey week, and who were looking for work. Also included as unemployed are persons who would have been looking for work except that (a) they were temporarily ill, (b) they expected to return to a job from which they had been laid off for an indefinite period, or (c) they believed no work was available in their line of work or in the community.

The monthly labour force surveys showed that civilian employment in 1947 averaged 58,027,000, of whom 49,761,000 were engaged in non-agricultural employment and 8,266,000 were in agricultural employment. These employment estimates include, in addition to wage and salary workers, the self-employed, proprietors, and domestic servants.

The sum of employment and unemployment is the civilian labour force—averaging 60,168,000 in 1947. With the armed forces averaging 1,440,000, the total labour force was 61,608,000.

"Employed persons" comprise those who, during the survey week, were either (a) "at work"—those who did any work for pay or profit, or worked without pay for fifteen hours or more on a family farm or business; or (b) "with a job but not at work"—those who did not work and were not looking for work but had a job or business from which they were temporarily absent during the entire week because of vacation, illness, industrial dispute, bad weather, or layoff with definite instruc-



tions to return to work within thirty days of layoff. Also included are persons who had new jobs to which they were scheduled to report within the following thirty days. The average number of persons who had jobs but who were not at work was 2,474,000. The vast majority of these were absent from their jobs because of illness or vacations, with only about 200,000 not working for what might be considered economic reasons—temporary layoff and new job.

Unemployment of 2.1 million in a labour force of nearly 62 million is very little if any higher than would be expected as a result of labour turnover and the normal frictions of the labour market in an early post-war year. On the average, only about 20 per cent of the unemployed had been out of work for fifteen weeks or more. Approximately one-half had been out of work four weeks or less.

Under-employment in the form of involuntary part-time work appeared also to be at or close to the normal peace-time minimum in 1947. A special labour force survey in September 1947 indicated that of 6.5 million part-time workers, 4.6 million<sup>1</sup> either usually worked part-time or were working short hours because of vacations, illness, or various personal reasons, with only 0.9 million working part-time by reason of layoffs, slack work, material shortages, repairs to plant and equipment, bad weather, or the starting or termination of a job.

Because of the mobility of American labour, such unemployment as existed in 1947 was fairly evenly distributed throughout the country, with little concentration in particular industries or areas. The chief area of higher than average unemployment in 1947 was the West Coast, where temporary maladjustment existed as a result of the large influx of population both during and after the war.

#### REPLY TO QUESTION 4

The combination of very high level of domestic consumption, plus the high level of business expenditures for expansion and modernization of plant and equipment, plus a high level of government expenditures, particularly for defence preparation and for foreign aid, caused a level of virtually full employment and inflationary pressure. Therefore, conditions do not call for any general measures to eliminate unemployment. Rather, government programmes are particularly concerned with fighting inflation and with assuring an effective utilization of scarce raw materials.

To facilitate the rapid re-employment of persons who are currently unemployed, there are available the United States Employment Service and the State and local employment services. These services are described under question 11 below.

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<sup>1</sup> According to the original source referred to in the text the figure should be 5.6 million. This added to the 0.9 million referred to in the latter part of the sentence gives the total of 6.5 million part-time workers. (Editor's note.)



## REPLY TO QUESTION 5

(a) The President's anti-inflation programme is designed in part to prevent or mitigate a future decline in economic activity. As has been pointed out in the various Economic Reports, and by the Vice-Chairman of the Council of Economic Advisers in his testimony before the Senate Banking and Currency Committee, 4 August 1948, inflation causes distortions in income and price relationships which aggravate future dangers of economic stabilization.

The President's recommendations for fighting inflation, which have been formulated with the aid and assistance of the Council of Economic Advisers, can be found in the President's *Economic Report of January 1948*, particularly section IV, and in the *President's Message to Congress of 27 July 1948*, reprinted in the *Mid-year Economic Report of the President, July 1948*, pages 7-8. The Congress has adopted only part of the President's recommendations in Public Law 395, Joint Resolution, "To Aid in the Stabilization of Commodity Prices, to Aid in Further Stabilizing the Economy of the United States, and for Other Purposes", and in Public Law 905, Joint Resolution, "To Aid in Protecting the Nation's Economy Against Inflationary Pressures".

In the long run, the President's programme for the development of natural resources and capital equipment, of human resources and productivity, and of institutions and practices for a high production economy was designed to aid in maintaining high levels of employment and economic activity. For an outline of these long-range objectives, see the *Economic Report of the President of January 1948*, section V.

(b) Inherent in existing legislation and institutions are a number of "automatic stabilizers". They are related to (1) governmental expenditures in general; (2) unemployment benefits and other social security measures; (3) the government farm price support programme; and (4) taxation. There follow some brief comments on each of these categories.

(1) *Governmental expenditures in general.* Even though most Federal expenditures are determined by annual appropriations, it is not likely that such expenditures will be reduced proportionately in case of a reduction in economic activity and revenue. Many Federal expenditures are based on legislation such as for veterans' benefits, grants-in-aid to State and local governments, and interest on the public debt. These are, at least relatively speaking, "fixed commitments" which will not automatically decline with a reduction in economic activity. Some expenditure programmes will automatically increase in a depression. The most outstanding examples of such programmes are discussed in subsequent sections (2) and (3).

(2) *Unemployment benefits and other social security measures.* The unemployment compensation programme now in force in the United States will of course bring an automatic increase in benefit expenditures in the event of an increase in unemployment. It has been estimated that



the benefit *increase* might total as much as one thousand million dollars a year in a mild depression (with 5 million unemployed) and possibly two thousand million annually should unemployment approach 10 million. Programme extensions that have been recommended but not as yet adopted would nearly double the expenditure increase estimates given above.

Total employment tax receipts may be expected to decline somewhat as covered employment falls. In view, however, of the experience rating feature of most State unemployment compensation laws, the tax *rates* will act perversely should an employment decline be severe and prolonged.

Other types of social security programmes offer some compensatory action of an automatic or semi-automatic nature. The old age and survivors insurance programme will probably continue to be mildly deflationary for the next few years. In the event of a recession, however, both some contra-cyclical increase in benefit expenditures and a decline in tax revenues would take place.

Finally, public assistance expenditures for the aged, dependent children and the general needy would undoubtedly increase should increasing unemployment develop. Unlike the insurance programmes, however, the increase in expenditures would not be fully automatic since it would sometimes be delayed pending appropriation action by State legislatures. The net increase in expenditures under these programmes would probably be comparable in magnitude to that of the unemployment compensation system. The source of funds used (and the net economic effects) is indeterminate. Whatever portion is provided by State and local governments would probably come largely from varied types of taxation and from curtailment of other expenditures. The Federal share might be derived largely from debt expansion or a curtailment of debt reduction.

(3) *The government farm price support programme.* Programmes to support prices to farmers for a number of major commodities were undertaken by the Government of the United States some years before the war. These programmes were greatly expanded in scope to induce increased agricultural production during the war, and their continuance was guaranteed for a two-year period of adjustment after the termination of hostilities. The new *Agricultural Act of 1948* extends this guarantee through 1949, and establishes a permanent basis for farm price support to take effect on 1 January 1950.

The interim programme guarantees support for a wide range of commodities at not less than 90 per cent of their "parity prices". (For some of the commodities this minimum level is dropped to 60 per cent in 1949. The wool support is specified in actual cents per pound, rather than in terms of parity.)

The parity price of a commodity is intended to represent a purchasing



power for the things that farmers buy equivalent to that which the commodity commanded in a base period—in most instances, 1909-1914. It is calculated by multiplying the price farmers received for the commodity in the base period by an index of the prices paid by farmers for commodities used in production, family living, interest and certain taxes.

The permanent programme makes mandatory the support of prices to farmers for most major crops: wheat, corn, cotton, rice, tobacco, peanuts, and Irish potatoes; and for wool. It authorizes government support of the price of any other farm product. The price that must be supported for each of the commodities listed is between 60 and 90 per cent of the parity price, the percentage in any year depending chiefly upon supply and demand conditions and upon the co-operation of producers in putting into effect marketing quotas. Other commodities may be supported at not more than 90 per cent of the parity price.

The new Act revises the parity calculation in this connexion to bring the parity price of individual commodities more nearly into line with actual market price relationships. These adjustments do not impair the basic purpose of the farm price support programme, namely, providing an over-all floor under farm purchasing power under less favourable business conditions.

To give effect to the programme of farm price supports there is the continuously available borrowing power of the Commodity Credit Corporation, authorized in the amount of 4.75 thousand million dollars. The Corporation supports prices chiefly through commodity loans to producers, but also is authorized to make use of purchases, payments, and other operations.

Also automatically available is the annual appropriation of 30 per cent of United States customs receipts, for use in encouraging the domestic consumption and export of farm products. Under the new Act, unspent balances of this appropriation may be accumulated up to the amount of 300 million dollars.

Thus there is automatically available up to 5 thousand million dollars for carrying out price guarantees to farmers. Current appropriations to replenish or supplement these funds are also authorized by law.

(4) *Taxation.* As contrasted with the relatively "fixed" commitments that determine many of the expenditure programmes and the automatic counter-cyclical changes in some expenditure programmes mentioned under (2) and (3) above, the Federal tax revenue is highly sensitive to business fluctuations. This follows from the particular structure of the Federal tax system, with great importance being attached to progressive individual income taxes and corporate profits taxes. The adoption of the "pay-as-you-go" principle in the collection of personal income taxes has added to the cyclical sensitiveness of the tax system. It has been estimated that a drop of 10 thousand million dollars in the gross national product would cause an approximate drop in Federal revenue of 2 to 2.5 thousand million dollars under existing legislation.



## REPLY TO QUESTION 6

Besides the programme recommendations referred to under 5 (a) there are in operation no short or long run national economic plans based on the full utilization of all available resources.

However, since the *Employment Act of 1946* is designed to promote a national policy of maintaining maximum employment, production, and purchasing power, it imposes upon the Council of Economic Advisers the responsibility to define levels of employment, production, and purchasing power that are needed to accomplish the purposes of the Act.

Toward this end, the Council is undertaking a quantitative definition of certain economic targets or goals over a number of years, to serve as bench-marks for economic policies and programmes, private and public, which will help to achieve the continuing purposes of the Act. These targets relate to such matters as investment needs, spending and saving, industrial and farm production, energy needs, housing and resource development, etc. The study also includes examination of the income and price relationships that may prove significant in stimulating or retarding economic developments. Such studies are designed to provide a groundwork for the evaluation of public and private policies and programmes relating to the promotion of maximum employment, production, and purchasing power over the years.

## REPLY TO QUESTION 7

Other than those mentioned in the answer to question 5, there are no programmes and provisions available under existing statutes to offset future unemployment. The *Employment Act of 1946* established machinery and procedures for dealing with the threat of unemployment but did not prescribe any specific programme, nor has any subsequent legislation authorized any such programme for the economy as a whole.

However, the Council of Economic Advisers, under the statute, has the responsibility for advising the President on national economic policies designed to promote maximum production and employment and economic stabilization. The Council, shortly after its establishment, initiated surveys of stabilization devices that may be needed to prevent heavy fluctuations in employment and production or to combat unemployment that may have developed. These surveys include most of the measures that are listed in the United Nations questionnaire. The measures under exploration include policies designed to maintain or restore a relationship in income, prices and costs conducive to economic expansion, as well as measures designed to counteract deficiencies in effective demand.

Most of the measures enumerated under question 7 in the United Nations questionnaire would require legislation. There are laws that authorize Federal activities in a great number of fields such as public works in general and, specifically, Federal aid to highway construction and airport construction. There is legislation for the support of housing. The enabling legislation must be supplemented by appropriations



before actual activities can begin. Some action in the field of credit and monetary policy, however, is authorized by the *Federal Reserve Act*.

A limited degree of advance planning of State and local public works has been completed under legislation and appropriations of recent years. Federal financing for advance planning of State and local public works was authorized under Title V of the *War Mobilization and Reconversion Act of 1944*. Under this Act the Federal Government advanced repayable loans to State and local governments for the purpose of completing blueprints for worthwhile public works to be built in the future. However, the authority to advance such funds was terminated on 30 June 1947, and this programme is now in liquidation. Under this programme, planning advances of 59.4 million dollars had been approved for more than 7,000 projects with an estimated cost of 2.4 thousand million. The catalogue of useful public works projects which could be planned and put in process is, of course, many times larger than that amount, and represents a great potential basis for employment when needed.

The Federal Works Agency has estimated that as of 30 June 1947, the total value of government projects for which plans were completed—Federal, State, and local—amounted to 4.5 thousand million dollars. In the meantime, new plans have been added; others have been put under construction. It is likely, therefore, that this figure is still approximately correct.

The actual dearth of approved programmes designed specifically to offset possible deficiency of effective demand implies no lack of purpose to provide such programmes in case of need. The *Employment Act of 1946* implies the contrary. If the need is demonstrated by the course of events, additional legislative action setting up the necessary programmes or appropriations will be called for.

#### REPLY TO QUESTION 8

Under the terms of the *Employment Act*, it is the responsibility of the President to recommend legislation not only to counteract unemployment once it has developed, but also to minimize fluctuations in the economy so that large unemployment can be prevented if possible. The President's Economic Report to Congress must set forth "current and foreseeable trends in the development of employment, production, and purchasing power" in order to detect as promptly as possible dangers to the employment situation and the need for remedial government programmes.

The Council of Economic Advisers has surveyed the various methods that have been suggested for anticipating the time of an economic downturn. In the light of present knowledge and techniques, the Council found it more fruitful to concentrate on an analysis of actual or threatening basic maladjustments in the economy and the exploration of remedial programmes rather than to attempt forecasts of the exact turning points. Nevertheless, the Council, for its own internal purposes, has co-operated



with other Government and private agencies in experimenting with various methods of economic projections and forecasts.

#### REPLY TO QUESTION 9

There is no legislation that determines the way in which any increases in governmental expenditures are to be financed. Existing legislation makes it possible for fiscal and budgetary policy to be decided in accord with changing circumstances. Various laws provide for a procedure that makes it possible to take into consideration economic as well as budgetary conditions. A summary of this procedure follows.

Under the *Budget and Accounting Act*, the President has the responsibility to make recommendations for either additional taxes or borrowing whenever proposed expenditures for the ensuing year exceed revenue under existing legislation. In formulating these fiscal recommendations, the President has the advice not only of the operating fiscal agencies, particularly the Treasury Department, but also of two agencies within the Executive Office of the President, namely, the Bureau of the Budget and the Council of Economic Advisers. These two agencies work in close contact on the budgetary and economic aspects of fiscal recommendations.

Also on the legislative side an attempt has been made by recent legislation to co-ordinate budgetary and economic consideration of pending legislation. Under the *Reorganization Act of 1946* (Public Law 601), the Congress has created a Joint Congressional Committee on the Legislative Budget. It is the duty of this committee to make recommendations to Congress as a whole concerning the over-all level of expenditures, revenue, and changes in the debt. The *Reorganization Act* prescribed that the report of the Joint Committee on the Economic Report should be submitted shortly before the report of the Joint Committee on the Legislative Budget is due. Actually the time allowed for both reports proved to be too short so that the time schedule had to be revised. Nevertheless, it was the obvious intent of Congress in passing the *Reorganization Act* that the Joint Congressional Committee on the Legislative Budget, in recommending legislation concerning expenditures, revenue, and borrowing, should have at its disposal the report of the Joint Committee on the Economic Report. It was thus intended to assure that the economic analysis could be taken into consideration in the legislative formulation of fiscal policy.

#### REPLY TO QUESTION 10

There are no statutes that limit an increase in the public debt by requiring a balanced budget over longer periods or by keeping the ratio of national debt to the national income below a certain limit. The policy concerning the national debt is decided according to circumstances through the procedures described in the answer to the preceding question. There is, however, a statutory debt limit at the present time of



275 thousand million dollars. This limit was first determined at 11.5 thousand million in connexion with the authorization of Liberty Loans during the First World War. It has been changed from time to time in accord with financial requirements.

#### REPLY TO QUESTION 11

If workers are to leave areas where job opportunities have declined and move to areas of greater opportunities, it is necessary that three conditions prevail. Workers must know where and what the jobs are. They must be able to finance the costs involved in the transfer and they must be willing to leave their present home and community.

The United States Employment Service continuously provides necessary information relative to job opportunities. The employment service work of the more than 1,800 local employment offices is co-ordinated by State and regional offices and by the national office. Therefore, employers seeking employees through the Employment Service are utilizing a nationally co-ordinated system. If labour is not available locally for filling an employer's request, the order is transferred to other employment offices where such labour is known to be available. Thus a local employment office in one area can refer the job applicants to unfilled jobs which exist in other locations. In case serious local unemployment situations developed, USES inter-area recruitment operations of this nature could be expanded. While the use of government employment offices is not compulsory, no unemployed person can draw unemployment benefits without registering at the local employment offices. In addition, such persons to remain eligible cannot refuse to accept a suitable job offer. This greatly assists the Employment Service in maintaining a current file on the unemployed.

The problem of individual workers financing the costs involved in transferring from one area to another is more serious. In view of the high levels of employment which have prevailed for seven years, and high rates of saving that prevailed during the war, many workers would not find it too difficult to make such transfers from their own resources. The fact that separation pay is becoming more widespread and that individual employers often provide some financial assistance to urgently needed new workers when considerable expense is involved in moving to the new location helps to ease the financial burden involved.

In general, workers in the United States have always been willing to seek better employment opportunities by internal migration and can often provide their own transportation because of car ownership. In consequence, a high degree of geographical mobility exists. Under present conditions, the mobility of labour is impaired, however, by the shortage in housing.



## REPLY TO QUESTION 12

The United States now has a very large surplus on international current account. While efforts to maintain full employment in the face of a drastic decline in exports could lead to a sharp reduction in the present large surplus or conceivably even convert it into a deficit, it is not anticipated that such a development, should it occur, would lead to any balance of payments difficulties. The position of the United States with respect to gold supplies and other international reserves is strong. An outflow of such reserves would cause no serious problems for the United States economy. Consequently (a) no measures are envisaged to deal with the problem; (b) it is not anticipated that any assistance would have to be requested of the existing specialized agencies of the United Nations; (c) no other international measures would be required.

## REPLY TO QUESTION 13

The principal territories and insular possessions of the United States which are not self-governing and do not participate in the work of United Nations' regional economic commissions are Hawaii, Alaska, Puerto Rico, and the Virgin Islands. These territories or insular possessions have their own legislatures which enact and administer laws within the framework of organic legislation provided by the United States Congress. As in the States, certain government programmes are administered by the Federal Government, others by the State or Territorial Governments, and others jointly. In general, the territories have considerably less autonomy in fiscal, judicial, and other matters than the States.

The principal Federal bureau having general responsibility over the economic and other programmes and policies in the four major territories or insular possessions is the Division of Territories and Island Possessions in the United States Department of the Interior.

Up to date general information about economic, social, and educational conditions in each of the four territories may be found in the annual reports transmitted by the United States to the Secretary-General of the United Nations pursuant to Article 73 e of the Charter.

*Hawaii.* The Territory of Hawaii shares in various Federal programmes designed in part at least to promote economic stability. The United States Employment Service maintains offices in several of the islands. The various provisions of the United States social security programme such as old age and survivors insurance and child and maternal care apply in Hawaii. The Territorial legislature has passed an unemployment compensation law (Act 219, 12 May 1939) and also maintains a Department of Labour.

*Alaska.* In the Territory of Alaska the Alaska Development Board, created by the Territorial legislature (Session Laws, chapter 25, 1945), has prepared various economic studies and carried on a vigorous pro-



gramme of industrial, commercial, and agricultural promotion. Alaska has an unemployment compensation programme not unlike that of the various States (chapter 4, Session Laws of Alaska, 2 April 1937, as amended). Other features of the Federal social security programme, including old age and survivors insurance, pertain to Alaska. The United States Employment Service maintains offices in the principal cities in Alaska. The United States Department of Agriculture loan, electrification, and other programmes apply, but only to the privately owned land in Alaska.

*Puerto Rico.* The problems of maintaining full employment are probably most difficult in Puerto Rico where a fast growing population of more than 2 million lives on a land area of 3,435 square miles and depends largely on a single industry, sugar.

To promote economic development and stability, the Puerto Rico insular Government has established the Puerto Rico Industrial Development Company (Act 188, Puerto Rico Legislature, 11 May 1942, as amended), the Puerto Rico Development Bank (Act 252, 13 May 1942), and the Puerto Rico Agricultural Company (Act 31, 24 April 1945, as amended). The Puerto Rico Planning Board recommends each year a six-year financial programme, one of the purposes of which is to promote economic stability. The Insular Department of Labour maintains an employment office to assist persons in finding useful employment.

Various United States Department of Agriculture programmes operate in Puerto Rico including agricultural price support for sugar, the soil conservation payment programme, and the different loan programmes. The child and maternal care and the aid to the blind features of the United States social security programme apply to Puerto Rico.

*Virgin Islands.* In the Virgin Islands, the Virgin Islands Company of the United States Government was established in 1934 to own and operate various properties including sugar mills, to loan money, to market products such as sugar and rum, and for other purposes. A bill to obtain a Federal charter for the Company is now pending before the United States Congress. This charter would broaden the functions of the Company to include promotion of economic development, conservation of ores, diversification of agriculture, and making of industrial and commercial loans.

*Pacific Islands.* In addition to the above-mentioned territories and possessions, the United States is also responsible for the administration of Guam and American Samoa, which are island possessions of the United States; the Trust Territory of the Pacific Islands; and a number of minor islands in the Pacific. The United States Department of the Navy has charge of employment and economic welfare programmes in Guam, American Samoa, and the Trust Territory. American Samoa participates in the work of the South Pacific Commission.



## 2. Reply of the United Kingdom

### REPLY TO QUESTION 1

As a Member of the United Nations the United Kingdom shares the obligation of all Members "to take joint and separate action in co-operation with the Organization for the achievement of the purposes set forth in Article 55". The Charter of the International Trade Organization, to which the United Kingdom has subscribed, states (article 3), that "Each member shall take action designed to achieve and maintain full and productive employment and large and steadily growing demand within its own territory through measures appropriate to its political, economic and social institutions". Similar obligations are undertaken by members of the International Monetary Fund.

The major domestic statement on employment policy is contained in the White Paper on *Employment Policy* presented to Parliament by the Coalition Government in May 1944. This is not primarily an outline of projected legislation since, to quote the White Paper, "employment cannot be created by Act of Parliament or by Government action alone". It is a statement of government policy and an acceptance of government responsibility for the maintenance of a high and stable level of employment. That responsibility has since been reaffirmed in numerous ministerial speeches.

### REPLY TO QUESTION 2

Employment policy has so far been treated as one aspect of economic policy. The Ministry of Labour and National Service have a general responsibility for dealing with labour questions as such; but a number of other departments are concerned with the broader aspects of economic policy. Co-ordination is secured by frequent inter-departmental discussions both at the ministerial and at the official level, and by the work of the Central Economic Planning Staff, which was set up in April 1947 as part of the Treasury, the department charged, under the Cabinet, with the general supervision of economic affairs, to co-ordinate economic policy and to prepare comprehensive plans. The division of economic responsibility between other departments is broadly by industries; the Ministry of Supply is responsible for the engineering industries, the Board of Trade for most other manufacturing, and most retail distribution and consumer service trades, other than the processing, manufacture and distribution of food for which the Ministry of Food is responsible. Other economic departments are the Ministries of Agriculture, Transport, Fuel and Power, Civil Aviation, and Works, and the Admiralty (ship-building). The central economic organization also includes the Economic Section of the Cabinet Office, a small group of professional economists charged with the duty of keeping general economic trends under review; and the Central Statistical Office, also part of the Cabinet Office.

(a) The collection and general interpretation of statistical and other information on economic trends is the responsibility of the appropriate



government departments. Thus the employment situation is kept under continuous review by the Ministry of Labour and National Service. Trends in output, stocks, and sales are reviewed by the departments responsible for particular industries. The appraisal of the situation from the viewpoint of employment policy, and the primary responsibility for assessing the need for government intervention to counter deflation, or inflation, rests with the central economic organization described above.

The most important annual analyses are the White Paper on *National Income and Expenditure*, and the *Economic Survey*.

(b) and (c). Responsibility for preparing fiscal measures rests with the Treasury. The programming of future investment is done by the Central Economic Planning Staff (Treasury) in close consultation with the departments who administer the controls on investment (see question 6). Some particular aspects of employment policy are the responsibility of individual departments. For instance, the Ministry of Labour is responsible for certain industrial retraining and transfer schemes; and the Board of Trade is responsible for general distribution of industry policy including the development of new industries in the Development Areas (see questions 3 and 4).

#### REPLY TO QUESTION 3

The average number of insured persons<sup>1</sup> registered as unemployed at employment exchanges in Great Britain during 1947 was approximately 468,000. For the greater part of the year, however, the number unemployed was much smaller than this figure, but the average is affected by the fact that, during February and the early part of March, very large numbers of work people were temporarily suspended from work owing to the very severe weather and the shortage of fuel. If the abnormally high figures for February and March were omitted, the average for the year would be approximately 298,000. These two figures represent about 3 per cent and 2 per cent, respectively, of the estimated total number of insured persons.

The level of employment throughout most of 1947 was very high, and such unemployment as there was, apart from that during the fuel crisis, could not be attributed to inadequacy of materials and equipment or lack of adequate markets. Much of the recorded unemployment was due to labour turnover; 40 to 50 per cent of unemployed workers found employment in less than six weeks. Many of those who remained for long periods on the unemployed registers were elderly men of limited industrial value; at 8 December one-third of the unemployed men were

<sup>1</sup> The principal classes of persons not insured under the *Unemployment Insurance Acts*, and therefore excluded from these figures, were men aged 65 and over, and women aged 60 and over, indoor private domestic servants, farmers' sons and daughters employed in agriculture, female professional nurses, teachers, established civil servants, and a considerable proportion of the permanent employees of railways, local authorities, and certain statutory authorities.



classified as "general labourers for light work". There was no concentration of unemployment in any particular industry, but there was a geographical concentration in certain areas scheduled by the Government as Development Areas for special assistance as regards industrial development; at mid-1947 over 40 per cent of the registered unemployed were in these Development Areas, where the rate of unemployment averaged 4.5 per cent compared with 2 per cent for the country as a whole.

#### REPLY TO QUESTION 4

The United Kingdom has pursued a policy of aiming generally at a balanced distribution of industry throughout the country and particularly at steering industrial expansion of appropriate kinds into the Development Areas. The negative power of denying firms permission to expand in congested areas has been reinforced by positive inducements such as those described in sections 2, 3 and 4 of the *Distribution of Industry Act, 1945*. As a result a large number of factories and extensions have been built or are being built in the Development Areas and additional employment has so far been provided by this means for upwards of 105,000 people; a further 184,000 should be employed when the other factories which have been planned or are under construction are completed and in full production. A White Paper on *Distribution of Industry Policy* is about to be published.

The measures which are being taken to transfer and retrain labour are described in the answer to question 11.

#### REPLY TO QUESTION 5

(a) The danger at present confronting the British economy is inflation rather than deflation; and, at present, government policy aims, not at preventing a decline in economic activity due to insufficient total demand, but rather at restraining an excessive level of demand. The experience gained in handling an inflationary situation has some bearing on what our policy would be if faced with a problem of the opposite sort. The measures used to meet the present inflationary situation have been:

(i) The restraint of investment expenditure, both by direct controls upon building and upon the production of plant and machinery for use at home (see the White Paper on *Capital Investment in 1948*); and by restricting new capital issues and bank credit to industries given preference in the investment programme (see *Treasury Circular to the Capital Issues Committee*);

(ii) The restraint of consumption expenditure, both by the retention of rationing and other direct controls upon particular consumers' goods and services; and by the general restraint of monetary demand through high taxation and a budget surplus (and through the discouragement and differential taxation of distribution of profits by companies).

It is hoped by these measures substantially to remove the present



inflationary excess of total demand. It is recognized, however, that when this aim has been achieved, a rigid continuance of the present measures of restraint might well go too far and cause an insufficiency of demand. The need for a flexible policy was clearly stated by the Chancellor of the Exchequer in his Budget speech on 6 April 1948:

"We must watch the situation carefully, and be ready to detect the moment when the inflationary pressure vanishes, and gives place to deflationary tendencies; if such a thing should happen, we must then make a rapid adjustment of our economic and financial policies." (Parliamentary Debates—Vol. 449, No. 93, column 49.)

Whether a decline in demand arose in this, or other, ways, a relaxation of some of the measures already in operation would do something to remedy the situation (further measures which would be adopted if necessary are discussed in answer to question 7). In one sense, the problem of inflation and that of deflation constitute two aspects of a single problem: that of maintaining a high and stable level of demand and employment. To the extent that we are successful in maintaining a balance between a state of inflation and one of deflation, we are likely to be faced by difficulties on both sides simultaneously. Demand for the products of some industries and areas may be insufficient to maintain full employment there, while at the same time the demand for other products will cause many of the symptoms of inflation. The maintenance of this balanced state of demand, and the solution of the attendant problems, will remain one of the central concerns of economic policy.

(b) There are various elements in our existing governmental economic machinery which, quite apart from any deliberate change in policy, would have a very considerable stabilizing or corrective effect, should a deficiency in total demand develop.

(1) *Fiscal arrangements of the central Government*

While there are no important elements in the expenditure of the central Government which would tend automatically to fall off in the event of a failure of total demand, revenue stands to be considerably affected, quite apart from the changes in the tax structure which might be made. Normal fiscal arrangements, though not designed for this purpose, would therefore have an automatic, and very substantial, stabilizing effect.

In the case of income tax, surtax, and profits tax (about half of total central government taxes) the full decline in tax *receipts* would not be apparent till the following fiscal year. But the *liabilities* for tax are perhaps more important in this connexion, since the large taxpayers who are chiefly affected by the lag are mostly business companies who make provision at the time for the taxes due to be paid later. Direct tax liabilities would be immediately affected by a decline in national income, as would direct tax payments by small taxpayers, and the



receipts of indirect taxes. As near as may be calculated, the total liabilities for tax would fall off in about equal proportion to the decline in incomes and employment. Since central government taxes now amount to about one-third of the total of personal incomes, this effect alone might offset about a third of any decline in demand that took place.

### (2) *Unemployment benefits under the National Insurance Scheme*

The operation of the National Insurance Scheme, whose finances are, by statute, distinct from those of the central Government, would have a further effect in this direction. Under the scheme introduced under the *National Insurance Act*, which started working in July 1948, total contributions and other receipts were determined so as to balance total benefits and other outgoings at a level of unemployment of 8½ per cent. As the scheme is at present working, the rates of contribution are fixed and do not vary with the level of employment. When unemployment is less than 8½ per cent, the scheme accumulates a substantial surplus each year; at the present level of unemployment of 11½ per cent, this surplus is of the order of £90 million a year. Should the total demand decline and cause unemployment to increase, the effect of increased payments might therefore (at the present level of prices) offset about a tenth of the decline in incomes that took place.

### (3) *Agricultural price guarantees*

Guaranteed prices and markets for agricultural products are provided in the United Kingdom under powers contained in the *Agricultural Act, 1947*.

Such guarantees are applicable to both crops and livestock. At present, with the exception of oats and sugar-beet, there is no limit on the amount of produce for which a market is guaranteed. Eventually ceilings may be set, but they will not be such as to impose sudden or drastic limitations on the level of agricultural output. Crop prices are fixed annually in March for the crops of the next calendar year. Livestock prices are fixed annually at the same time and come into operation immediately; and, in addition, guaranteed minimum prices, covering two to four years ahead, are fixed biennially for livestock. The major consideration in fixing the level of prices is the maintenance of farming incomes at a stable and adequate level.

### (4) *Other measures*

Powers have been taken under the *National Insurance Act* by which insurance contributions might be varied when it appears to the Treasury expedient to do so with a view to maintaining a stable level of unemployment. The way in which the contributions should be varied automatically in sympathy with the state of employment was discussed in the White Paper on *Employment Policy*. Since insurance contributions total some £350 million a year, their variation would be a powerful stabilizing influence. No such scheme has yet been introduced.



## REPLY TO QUESTION 6

The United Kingdom has short and long term economic plans. These do not amount to a detailed and all-embracing programme to which it is sought to impose conformity on all constituents of the economy. The Government has, however, broad objectives of policy, many of them expressed in quantitative form. The main aim of present planning is to achieve a balance on foreign account on the basis of a high domestic standard of living. Since the industries of the United Kingdom are dependent on imported materials, success in this aim is very relevant to the maintenance of full employment. Its realization will require wide changes in both the pattern of production and the pattern of trade.

In the short term there are fairly narrow limits to the change which can be brought about. Short term planning is primarily concerned therefore with estimating the maximum increases in production and exports by various industries which it is reasonable to assume, and with special measures to secure an increase where this is critical; and with controlling the size, composition, and source of imports so that they are consistent, within the limits set by the balance of payments position, with the needs of industry and of home consumption. The forecasts of exports and production are based on close consultation between the Government and industry, and in the case of exports, on comprehensive study of demand conditions. A variety of methods are used to aid the realization of production and export aims, including the system of allocating the most critical materials, consultation with industry, and fiscal policy.

In the long run, the solution of the United Kingdom's economic difficulties largely depends on the application of investment resources in those fields where expansion or modernization of capacity are most essential. Investment planning therefore is the core of long term planning. Investment is reviewed annually to plan the allocation of investment resources during the coming year. As is explained in the reply to question 7, the Government exercises direct influence over a large proportion of investment, while in the remainder of the field the fact that demand for investment goods is greater than supply makes it possible to influence the character of investment by selective control.

Under present conditions, difficult problems of forecasting demand arise, if at all, only in the case of exports. The present methods of planning have not been faced with a problem of securing an adequate level of domestic demand.

## REPLY TO QUESTION 7

For the reasons given in reply to question 14, employment policy in the United Kingdom is treated as one aspect of general economic policy, which cannot be laid down in advance in set detail. The general lines of policy were, however, set out in the White Paper on *Employment*



*Policy.* The following are some of the measures that would be available to the Government to counter a threatened decline in demand.

(a) *Increased government expenditure on goods and services*

Government expenditure on current account will be fairly constant as a rule; and such variations as occur in the important item of defence expenditure will be dictated largely by non-economic considerations. The Government, however, is a large consumer of certain types of consumption goods (e.g. boots, clothing and furniture); and it could within limits vary the volume of these orders according to the state of trade. Local authorities also might be invited to aim at a similar variation in their orders for stores of this kind.

As for expenditure on capital account, the problem up to the present has been to find means of restraining such expenditure, both public and private. The reviews of investment referred to above (see, for example, the White Paper on *Capital Investment in 1948*) have shown that demand for investment outruns the supply of resources required to meet them, and will continue to do so for a considerable time. The need to use public investment to offset a decline in private expenditure is, accordingly, not immediately pressing. The preparation of a specific reserve of works has, therefore, appeared at present to be unnecessary while so many projects have in any case to be postponed, so that a reserve of urgent works is automatically being built up.

If, however, the question did arise at a future date, the Government would be in a position to develop, subject to supplies of materials being available, the use of capital expenditure as a means of countering unemployment. By far the greater part of public capital expenditure is undertaken not by the central Government but by local authorities and nationalized industries. Government policy will be directed toward preventing capital expenditure by such bodies from fluctuating in sympathy with private capital expenditure. There are, however, practical limits to the extent to which government action can, at short notice, increase the volume of public investment to offset a decline in private investment. An important consideration is the length of time which must inevitably elapse between the decision to undertake capital expenditure and the actual start of work. Another consideration is the proportion which public demand normally bears to private demand in respect of any particular investment goods industry. Thus, under United Kingdom conditions, it would be easier by government action to stabilize the demand for building than that for engineering products.

(b) *The stimulation of consumption expenditure*

Those parts of our existing arrangements which would have an automatic stabilizing effect upon total demand have already been described. These would of course operate by affecting personal consumption expenditure. Additional measures to stimulate consumption expenditure



might however be necessary to offset the decline in consumption that would otherwise follow an initial decline in national income.

(i), (ii) and (iii). Such measures have not been considered.

(iv) *Changes in taxation*

As stated in the White Paper on *Employment Policy*, the Government have also examined the possibilities of varying the rates of taxation in order to stimulate consumption should total demand decline. Under present arrangements the tax changes made at the annual budget are dictated by the current economic outlook. It would be open to the Government to vary tax rates at times other than that of the normal budget; but there are certain disadvantages to this. Though income tax is collected from the mass of small taxpayers on a "pay as you earn" basis, and thus constitutes a very direct influence upon expenditure, it is an annual tax on an annual income and therefore not a perfectly flexible device. The substantial variation of indirect taxation, on the other hand, would not only affect general purchasing power, but might also cause exaggerated and not wholly predictable fluctuations in demand for the goods directly affected; the variation of indirect tax rates, moreover, causes an awkward practical problem about the tax to be charged on unsold stocks of goods. If therefore it should prove necessary to stimulate consumption expenditure between normal budgets, it may be that means other than the variation of taxes will be used as far as possible.

(v) *Other methods: tax credits*

Deferred credits are probably preferable to any system of direct tax variation. If experience shows that operations on the volume of consumption are desirable it may well become a matter for consideration whether in prosperous times rather more taxation should be raised than is necessary for the budget requirements of the year and that excess treated as a credit repayable to the taxpayers in bad times.

Part of the sums collected in income tax during the war (now amounting to about £570 million) was set aside as a "credit" that would at some appropriate time after the war be returned to the individual taxpayers who had paid it.

(c) *Encouragement of private domestic investment*

(i) It may be that there will be scope for influencing the level of private investment by adjustments of taxation; but at present private investment is controlled by more direct and quantitative means.

(ii) Two financial corporations, the Industrial and Commercial Finance Corporation and the Finance Corporation for Industry, have been set up. They ensure that investment which is worth while is not held up merely through the inability of the projectors to raise capital on the open market at a reasonable rate. While not intended primarily as



weapons against unemployment, these Corporations will be of use if the need to stimulate private investment arises. The power conferred upon the Treasury under the *Distribution of Industry Act* to provide financial assistance to investment in Development Areas is also relevant in this connexion.

(iii) It is at present the Government's policy to maintain the cheap money policy for urgent reconstruction needs. Later on the possibility of influencing capital expenditure by the variation of interest rates will be kept in view.

(iv) The Government encourage privately owned enterprises to plan their own investment expenditure in conformity with general stabilization policy.

(d) *Increasing exports by loans, etc., to foreign countries*

It is impossible to say in advance how far this method would be open to the United Kingdom. The balance of payments difficulties which might accompany a threat of unemployment would limit the United Kingdom's ability to make capital exports to countries overseas.

REPLY TO QUESTION 8

The present anti-inflationary policy requires that an attempt should be made to estimate the future level of demand (see chapter IV (b) of the *Economic Survey for 1948*). The problem of forecasting in a deflationary situation will be different for the different elements of aggregate demand:

(i) An attempt is already made to estimate the "*full employment*" level of *national expenditure*, from estimates of the previous year's national income, and of changes in productivity and in the working population;

(ii) Forecasts are made of the expenditure of the central Government (i. e. in the budget) and of other governmental bodies;

(iii) The demand for *investment* is at present higher than the level permitted by the various direct controls, and can thus be forecast with a degree of exactitude dependent on the precisions of the controls themselves. Signs of a slackening of the pressure of demand would probably be detected in the first place in the course of the present annual reviews of investment programmes, and from information available about the order books of plant and machinery manufacturers. The Government have considered the collection, at a later stage, of information about the investment intentions of private enterprise and other investing agencies; but it is considered that they would be unable to make useful replies to a questionnaire on these lines so long as investment is subject to such close central restraint. Under the present and proposed arrangements it is hoped that steps could at least be set in train before the threat developed, to offset a threatened decline in investment;

(iv) Under existing arrangements, forecasts are made of the invisible items in the *balance of payments*. The quantity of imports is, at present,



subject to close control by the Government, but price changes introduce an element of uncertainty. Export targets are at present fixed after a detailed survey of trends and prospects for different goods in different markets. But forecasts of exports are inevitably uncertain; and in the event of a world depression it might be difficult to foresee changes very far ahead, or do much in advance to counter the effects of a decline in demand for exports;

(v) The object of the present anti-inflationary fiscal policy is to restrain an excess of consumers' demand; but this is more a matter of trial and error than exact forecast. Should investments or exports decline, it might be possible to make some quantitative forecast of the repercussions upon consumption demand. But even without any exact method of forecasting, the Government would hope to counteract any decline in consumption demand before it had gone very far. In addition to this comparison in money terms of the sum of the various categories of expenditure with the "full employment" level of national expenditure an annual man-power budget is prepared. This compares the demand for labour implied in the above categories of expenditure with the forecast size and distribution of the labour force. This method has the advantage of directing attention not only to the size of the aggregate demand for labour but also to the question whether the demands for particular types of labour are consistent with the forecast distribution of the labour force.

#### REPLY TO QUESTION 9

It is not possible to give any precise answer as to the policy which the United Kingdom would pursue in a future situation. The employment effect, however, of an increase in government expenditure will normally be reduced if the expenditure is wholly or partially covered by increased tax rates.

#### REPLY TO QUESTION 10

Measures necessary to maintain employment would not be rejected merely because they involved an increase in the national debt. No precise measure can be fixed to the rate of increase in the national debt, which might be allowed if it were necessary, but regard would be paid to the undesirability of the national debt increasing over any long period at a greater rate than the national income.

#### REPLY TO QUESTION 11

The White Paper on *Employment Policy* explains that the Government does not rely primarily on large-scale labour transfers for a solution of the unemployment problem of particular areas, but believes in a positive policy of balanced industrial development. Where unemployment arises, it is one of the functions of the Ministry of Labour to try to place those affected in other work, locally if possible, and to provide training as necessary in order to enable them to find work in other industries



Where, however, the transfer of labour to other areas is necessary, schemes already exist in the United Kingdom. In April 1946, as part of the Government's full employment policy, a resettlement scheme was introduced by which grants and allowances are payable to unemployed workers transferred from areas where the prospects of employment for them are poor to employment in an area where the prospects are good and for which no qualified person is available. At the same time a Voluntary Temporary Transfer Scheme was introduced to enable unemployed workers in areas where for the time being there is some unemployment to volunteer to fill vacancies in other areas on a temporary basis. This scheme is designed to help unemployed workers to find jobs until the new industrial projects in their home areas get under way, and at the same time to assist in meeting the need for more production. Arrangements are included in this scheme whereby transferred workers, as the new industrial projects are started, are invited to return to employment in their home areas, and whereby their return is facilitated.

The grants and allowances include free fares, settling-in grants, emergency assistance, household removal assistance, and lodging allowances. Both schemes contain a provision enabling transferred workers voluntarily to change from one scheme to the other.

#### REPLY TO QUESTION 12

If an attempt to maintain full employment in the face of a decline in exports led to balance of payments difficulties, the following courses of action would be available to the United Kingdom:

(a) Restrictions on imports could be maintained or (if they had previously been relaxed) reimposed, and operated selectively as between products so as to minimize the effect of a shortage of imported materials upon the level of employment. This course of action would remain open to the United Kingdom as a member of the International Trade Organization, should the organization be set up at some future date;

(b) It would also be open to the United Kingdom to make use of any unused borrowing rights remaining in the International Monetary Fund; but whether this course would be expedient would depend on many considerations upon which it is impossible to decide in advance. It is equally impossible to say in advance how far it would be prudent for the United Kingdom to seek a loan from the International Bank for Reconstruction and Development; this would depend, among other considerations, on the additional foreign exchange likely to be earned by the United Kingdom by its use of such accommodation from the Bank;

(c) It would be of great assistance to the United Kingdom in the pursuit of full employment at home if other countries also were able to maintain a high and stable level of domestic demand. The United Kingdom has already indicated its views on the lines of policy that might be followed by international organizations, and made sugges-



tions for fruitful international action in a memorandum submitted to the Preparatory Committee of the International Conference on Trade and Employment.<sup>1</sup>

### REPLY TO QUESTION 13

Generalization on any question relating to the Non-Self-Governing Territories for which the United Kingdom is responsible is difficult because of the variety of peoples, territories and conditions comprised, and the varying stages that have been reached in the progress towards self-government which is the declared aim of His Majesty's Government's colonial policy.

It is, however, true to say that in the majority of these territories the problem of unemployment does not arise in the form known to the major industrial countries of the world. The reason is that they are principally agricultural societies whose people have very strong links with the land from which they are always able to obtain a livelihood. Urban populations are relatively small and even urban dwellers retain tribal connexions which, in the main, enable them to return immediately to their villages and support themselves by agriculture when other forms of work are not available. In this type of community, therefore, there is no real unemployment problem.

The two main problems in the Non-Self-Governing Territories for which the United Kingdom is responsible are to raise the national incomes and standards of life in these territories and to protect them against fluctuations in world markets which, although they do not produce unemployment, would otherwise cause sympathetic fluctuations in the national incomes of the colonies.

Measures taken throughout the overseas territories by the local governments to raise standards of life and maintain economic stability include:

(a) An improvement of the methods of cultivation and a broadening of the basis of output by encouraging the production of particular commodities. This work is being carried out through the agricultural departments of all territories;

(b) The provision of central marketing arrangements for the more important products (under the control of statutory bodies), which facilitates the placing of advantageous long-term selling contracts and enables the producer to be protected, through the operation of stabilization funds, from the vagaries of world prices. Stabilization funds are also used for general agricultural improvements and research, particularly when the production of the commodity concerned is threatened by disease (e.g. the swollen-shoot disease of cocoa in West Africa);

(c) The planning of the public works element involved in the various Territorial Development Plans to permit an increased tempo of public

<sup>1</sup> *International Employment Policy*, Economic and Social Council; document E/PC/T/6, 26 October 1946.



expenditure when the level of economic activity falls to an abnormal level;

(d) The development of co-operative enterprises. This has reached an advanced stage in certain territories, notably in Nigeria, the Gold Coast and Cyprus, where considerable sums of new local capital have thus been mobilized. Elsewhere co-operation is actively encouraged and co-operative departments, usually under a registrar trained in the United Kingdom, have been formed in many colonies to advise and assist nascent co-operative societies in every possible way. Courses and instructional visits to the United Kingdom enable members of co-operative department staffs to get the benefit of United Kingdom long experience in co-operative organization.

At the same time, however, His Majesty's Government in the United Kingdom has given, and is increasingly giving, very material assistance in the provision of expert advice and direction to development schemes. £120 million has been set aside under the *Colonial Development and Welfare Acts* of 1940 and 1945 to assist the colonial Governments to finance those schemes for which they are unable themselves to provide the capital outlay, but which they will, in due course, be able to support. Those schemes which promise an economic return can now be financed by the Colonial Development Corporation, for which His Majesty's Government in the United Kingdom has provided £100 million initial capital. In some cases development has been hindered by the shortage of supplies during the war and immediate post-war years, but His Majesty's Government is devoting special attention to this problem and the position is improving. Moreover the guarantee of markets which His Majesty's Government is able to offer to growers of a wide variety of goods in the Non-Self-Governing Territories over a period of years will very materially assist the territories in planning and putting into effect their development schemes.

The majority of the Non-Self-Governing Territories for which the United Kingdom is responsible are giving attention to the question of training of personnel, both in agriculture and industry, in order that there may be an improvement in standards of work which in turn will be reflected in the general welfare of the people.

Pockets of unemployment, however, do occur even within those areas which are mainly agricultural. There is a minor problem, for instance, in Africa where unemployment has been due either to the emergence of a detribalized class preserving little or no link with the land or to the emergence of a semi-urbanized category of persons who, as a result of having been temporarily uprooted from the land, for example by war service or employment in mining areas, have lost the skill or inclination to work on the land when their alternative employment is lost to them. The amount of unemployment resulting from these sources is comparatively small and varies widely from territory to territory. In particular areas, however, for instance in the coastal towns of West Africa, notably



those where docks attract unskilled labour, it has been found necessary for the various Governments to institute special measures, for example:

(a) Schemes have been instituted for training and placing in employment demobilized ex-servicemen; these have included legislative provision requiring employers to offer employment to ex-servicemen;

(b) Government building and road-making programmes have been adjusted so as to provide alternative employment during slack seasons;

(c) Where the persons concerned have not become permanently urbanized, they have been encouraged and assisted to return to their villages;

(d) Labour exchanges and systems of registration of labour have been established to assist unemployed persons in obtaining alternative employment.

The West Indian territories present the most acute problems of unemployment within the Colonial Empire. Figures are available from censuses taken in Jamaica in 1943 and in the other territories in 1946 but these cannot give a very accurate picture of the situation, since employment is to a large extent seasonal and a considerable amount of casual work is available. The following table, however, gives some indication of the position:

<i>Territory</i>	<i>Total labour force</i>	<i>Unemployed Percentage of labour force</i>	
		<i>Number</i>	
Jamaica .....	559,248	143,137	25.6
Trinidad .....	218,784	15,241	7.0
Barbados .....	93,664	7,259	7.8
Grenada .....	28,239	1,594	5.5
St. Lucia .....	32,813	3,234	9.9
St. Vincent .....	22,954	1,178	5.1
Dominica .....	21,934	1,519	6.9
Leeward Islands .....	48,684	2,414	5.0
British Guiana .....	147,481	3,731	2.5
British Honduras .....	20,335	1,151	5.7

It is evident that the situation is most acute in Jamaica and it is causing some concern in Trinidad and Barbados. The main causes of this unemployment have been the rapid rise in population (approximately 1.4 per cent per annum for the West Indies as a whole and 1.6 per cent per annum in Jamaica) before and during the war years, when world markets were disturbed or dislocated and rapid development in industrial activity was not possible. An accelerated drift from country to town changed the problem from one of under-employment in agriculture to one of urban unemployment. Considerable numbers of the population, moreover, were engaged in war service or special war work between 1940 and 1946 and, especially in the more thickly populated territories, have presented a problem of resettlement.



The measures to maintain economic stability or deal with pockets of unemployment which have been adopted in other parts of the Colonial Empire are also in operation in the West Indies but, in addition, special measures to relieve unemployment now being taken or under consideration, include the following:

(a) *Emigration.* Proposals have been made and are under consideration for the transfer of surplus population from the more densely populated islands, such as Jamaica, to those territories such as British Guiana and British Honduras, whose development will require a large population. This problem has recently been the subject of a special enquiry, and while proposals have not yet been finalized, it has been suggested that some 25,000 workers might be absorbed in this way over a period of ten years. Emigration already takes place to Netherlands West Indian territories and efforts are being made to find room for emigrants from the West Indian islands in other parts of the American continent. The possibility of placing West Indian workers in undermanned industries in the United Kingdom is also being carefully examined;

(b) *Promotion of industries.* The Governments of Jamaica and Trinidad are encouraging industry by means of tax concessions and loans to new enterprises; in Jamaica the Government may grant subsidies to industry, and has paid for expert advice on the development of new industries. The Barbados Ten Year Development Plan, which is now under consideration, provides for investigations into possible secondary industries;

(c) *Public works.* The various Ten Year Development Plans now in progress or under consideration include works such as road building, irrigation, housing and construction, etc., which will provide employment for unskilled labour;

(d) *Improvement of agricultural methods.* The improvement of methods of cultivation will increase agricultural income and tend to check the drift to the towns. In Jamaica, the Ten Year Development Plan provides for the prevention of soil erosion and new crops are being encouraged. The scope for expansion in most of the islands, however, is not very great, since by far the greater part of the available land is already cultivated. Emphasis is therefore being placed on more intensive cultivation and promotion of new crops;

(e) *Local inquiries.* Territorial governments are, with expert assistance from the United Kingdom in some cases, promoting local inquiries with a view to combating unemployment; for instance the Trinidad Government recently appointed a "Full Employment Committee" to examine the problem and make recommendations on the expansion of agricultural and industrial output;

(f) *Training schemes.* Extensive schemes have been instituted for the training and placing in employment of the demobilized ex-servicemen who were serving in the area, and at the same time, a considerable num-



ber of men who were serving outside the Caribbean area have been eligible to take part in the training schemes of the Ministry of Labour and National Service in the United Kingdom;

(g) *Relief work.* It is recognized that relief work is not a very satisfactory method of relieving unemployment and it is being utilized to any large extent only in Jamaica. To assist in relieving unemployment for the period between crops during 1947-48 grants totalling £120,319 were made to Parochial Boards in the various parishes. Approximately 40,000 persons were given employment, mainly in connexion with land development schemes.

Six territories, for whose international relations His Majesty's Government in the United Kingdom is responsible, take part through two associate memberships in the work of the Economic Commission for Asia and the Far East: Hong Kong and the Malaya and Borneo Group (comprising the Federation of Malaya, Singapore, North Borneo, Sarawak and Brunei). Provision exists for colonial membership of the Economic Commission for Latin America but at present none of the Non-Self-Governing Territories for which the United Kingdom is responsible has applied for membership. It is contemplated, however, that provision will be made for close contact between the Economic Commission for Latin America and the Caribbean Commission, of which His Majesty's Government is a member.

Further information concerning measures adopted or under consideration in the Non-Self-Governing Territories for which the United Kingdom is responsible, which will affect the maintenance of high rates of employment, is available in memoranda issued by the territorial governments.

(a) The majority of Governments have issued Ten Year Development Plans and reference may be made to specimen plans in each region. For example:

*West Africa. A Ten Year Plan of Development and Welfare for Nigeria.* Published by Government Printer, Lagos, in 1946;

*East Africa. A Development Plan for Uganda,* by Dr. E. B. Worthington. Published by Government Press, Entebbe, in 1946;

*Central Africa. Nyasaland—Report of the Post-War Development Committee.* Published by the Government Printer, Nyasaland, in 1945;

*West Indies. Ten Year Plan for Development of Jamaica.* Published by Government Printer, Kingston, in 1945;

*Pacific. Fiji—Report of the Post-War Planning and Development Committee.* Published by Government Printer, Suva, in 1946.

(b) An indication of the type of work being undertaken in connexion with bulk marketing and the establishment of a stabilization fund can be obtained from: *A Statement on Future Marketing of West African Cocoa*, Command Paper No. 6950, issued by His Majesty's Stationery Office, London, in November 1946.



(c) An example of the legislation covering the registration of labour is contained in the *Nigerian Labour Code Ordinance* (No. 54 of 1945) Chapter 14, Registration of Employers and Industrial Workers as applied to certain areas by Order No. 5 of 1948, and also the *Industrial Workers Registration and Employment Rules, 1943*, and the *Employers Registration Rules, 1944*, of the same Colony.

(d) An example of a special examination of current problems is the *Report of Industrial Development in the British Territories of the Caribbean*, prepared by the British member of the Panel of Experts engaged by the Caribbean Commission for a comprehensive industrial survey. The recommendations of the Panel are to be considered by the next West Indian Conference, and the territorial governments, which assisted in the survey, can be expected to take further action after considering the report and the resolutions of the Conference.

#### REPLY TO QUESTION 14

Policy for full employment cannot be limited to *ad hoc* measures directed against one specific problem, that of internal demand deficiency.

Experience of full employment conditions during and since the war has made it plain that the existence of full employment itself generates serious problems. Broadly speaking, there are three major problems: to prevent the development of an inflationary spiral; to keep the economy sufficiently flexible to allow rapid adjustment to changes in economic conditions; to maintain adequate incentives for enterprise and effort. The existence of these problems is not a new discovery; they are specifically mentioned in the White Paper on *Employment Policy* (paragraphs 49-56) issued by the United Kingdom Government in 1944. But further experience has shown that it is as difficult to solve these problems as to meet the threat from demand deficiency.

The problem of maintaining stability of employment in the United Kingdom is likely to be complicated, to a greater extent than in many other countries, by difficulties arising out of its dependence on international trade and payments. Even when, thanks to the economic reconstruction and reorientation at present under way, the United Kingdom economy has achieved a position of long term equilibrium in its external payments, it will be exposed to deflationary pressures which may arise from time to time in the rest of the world. Such deflationary pressures would not only directly affect unemployment in the export trades but would, in addition, create balance of payments difficulties which, if sufficiently severe, might endanger the United Kingdom's ability to purchase the raw materials necessary for full employment.

For these reasons the maintenance of full employment depends immediately and in the long run on the *continuous* success of *general* economic policy. Measures directed towards maintaining internal demand are only one element of this policy, and must at all times be co-ordinated with the other interdependent aspects of general economic policy. Conse-



quently on several of the points on which information is requested it is impossible to say what the United Kingdom policy would be in advance of the situation which it was designed to meet.

This does not mean that no forward plans for maintaining internal investment or consumption demand should be, or are being, made; when such action is necessary it is essential that it should be undertaken quickly. Thus, as is explained in the answer to question 7 (a), the present policy of controlling investment serves to create automatically a reserve of works. But the preparations which are being made are necessarily largely of a general character, and the answer given to many of the questions asked must be that, while the Government has made a few rigid commitments to take particular actions of the kind mentioned, these are points which obviously will be considered when the policy to meet any specific situation is being decided on.

### 3. Reply of Australia

#### REPLY TO QUESTION 1

Yes. They include the following:

(i) *Full Employment in Australia*, a paper presented by Command to Parliament on 30 May 1945.

(ii) The undertaking agreed to by Commonwealth and State Governments at the meeting of the National Works Council on 21 August 1946, for the maintenance and expansion of employment in the building industry over a ten years' period (contained in the pamphlet *Building for the Future*, issued by the Ministry of Post-War Reconstruction).

(iii) The *Budget Speeches* by the Commonwealth Treasurer (particularly those since 1944-45).

(iv) A statement on current Commonwealth policy in relation to Australia's primary industries, issued in 1946, entitled *A Rural Policy for Australia*.

(v) The *Commonwealth Bank Act 1945* and the *Banking Act of 1945*.

#### REPLY TO QUESTION 2<sup>1</sup>

Responsibility for the implementation of a full employment programme is divided between the Commonwealth and State Governments and Parliaments. The Commonwealth has no specific powers in regard to employment, but it has constitutional powers of considerable financial and economic importance which are directly related to full employment planning and policy. In general, the powers of the Commonwealth under the Constitution are of a national character (including trade and commerce with other countries and among the States; taxation, but not so

<sup>1</sup> Two annexures to the reply to this question concerning the *Functions of the Commonwealth Employment Service* and the *Commonwealth State Committees on Employment* have been omitted. (Editor's note.)



as to discriminate between States or parts of States; borrowing money on the public credit of the Commonwealth; defence; currency; coinage and legal tender; banking other than State banking, also State banking extending beyond the limits of the State concerned, the incorporation of banks, and the issue of paper money, and the provision of a wide range of social services.) The States have the responsibility for development, education, health, law and order and public safety.

As a result of the division of functions between Commonwealth and States, the task of giving effect to a full employment programme must be shared by these Governments. To assist in achieving co-operation, several forms of inter-governmental machinery have been established. The following are the main agencies:

The Premiers' Conference; the Australian Loan Council; the National Works Council.

The Premiers of the six States, meeting regularly with the Prime Minister and other Commonwealth Ministers to discuss matters of common concern, constitute the Premiers' Conference. The Conference is not constituted by statute, but now meets regularly at least once each year.

The Australian Loan Council was formally constituted by the Financial Agreement made between the Commonwealth and the States on 12 December 1927, and comprises the Prime Minister of the Commonwealth as chairman and the Premier of each State or a Minister nominated by him in writing. Its functions are concerned purely with the public borrowings of the Commonwealth and States. The Loan Council determines the amount to be raised each year by way of loans, the allocation of loan money to each member Government, and the terms on which loans will be issued. By arrangement, each Government submits the details of its loan programme for the year to the Commonwealth Co-ordinator General of Works who reports on all the programmes to the Loan Council. Also by arrangement with the States, the loan programmes of local government authorities are dealt with in a manner similar to the governmental borrowings.

The Loan Council in association with the Capital Issues Control and the Commonwealth Bank has an important influence in determining the level of investment in the community, and its decisions are of considerable significance for a full employment policy.

The National Works Council is a complementary authority to the Loan Council. The Council was formed in 1943 and consists of the Prime Minister with a second Commonwealth Minister and the Premiers of all States. It usually meets in conjunction with the Premiers' Conference. The Council was given the task of establishing and maintaining a reserve of public construction projects which would be available to provide for an expansion of public works programmes if this became necessary to meet unemployment. Planning of the reserve covers the acquisition of sites, investigations by parliamentary authorities, legislative approvals and preliminary estimates of costs of labour and materials. Although



unemployment did not develop during the transition period, the Council has agreed that a reserve of works should be maintained for immediate execution in the event of circumstances arising requiring an expansion of public investment. A procedure has been evolved by which each member of the Council adds new projects to the reserve and forwards regular advice regarding the progress made with the detailed planning of the individual projects in the reserve. Supervision of the reserve is carried out by the Commonwealth Co-ordinator General of Works in collaboration with the State Co-ordinators of Works.

In addition to the foregoing, meetings of both Commonwealth and State Ministers and officials take place from time to time to discuss matters such as the housing programme and other questions connected with the implementation of full employment policies.

Responsibility for policy decisions by the Commonwealth rests with the Government. The Government has, within the last few years, developed the administrative machinery for observation, analysis, planning and implementation of full employment plans. The main departments and authorities concerned are the following:

*The Department of the Treasury* is responsible for the administration of budgetary and fiscal policy. It acts in consultation with the Commonwealth Bank and other departments with economic functions.

*The Commonwealth Bank* is responsible for monetary and credit policy in accordance with the provisions of the *Commonwealth Bank Act 1945* and the *Banking Act 1945*.

*The Department of Labour and National Service* is responsible for the organization and operation of the Commonwealth Employment Service and the administration, together with the Department of Social Services, of the Commonwealth's unemployment benefit provisions.

*The Bureau of Census and Statistics* is responsible for the development, collection and analysis of statistical data necessary for planning purposes.

*The Department of Post-War Reconstruction* is responsible for the analysis of economic trends and the preparation of full employment plans.

#### REPLY TO QUESTION 3

Throughout 1947, the demand for labour in Australia was far in excess of the supply. This applied to both male and female workers, and the general situation was one of increasingly intense labour shortage. By June 1948, the discrepancy between labour demand and the supply of workers was still increasing, although the rate of accumulation of unfilled vacancies by the Commonwealth Employment Service had fallen off slightly.

Unemployment was at a low level throughout 1947. There were, however, some fluctuations in the numbers in receipt of unemployment benefits,<sup>1</sup> mainly as a result of seasonal conditions in rural industries.

<sup>1</sup> Eligibility for unemployment benefits is subject to means and works tests. Unemployed persons whose unemployment is not due to direct participation in strikes, who



No unemployment problem exists in Australia at present, as the number of persons in receipt of unemployment benefits constitutes substantially less than 1 per cent of the total labour force.<sup>1</sup> Preliminary results of the 1947 census show that adult male unemployment for any reason whatsoever (such as sickness, industrial disputes, changing jobs, resting) stood at about 60,000. Most of these do not, however, constitute an economic problem, and in any event, the figure is considerably less than 3 per cent of the total male work force.

In view of the small number of workers, both male and female, who are unemployed, little need be said regarding the causes of present unemployment. Labour turnover in itself is not responsible for more than a bare minimum of unemployment, because the Commonwealth Employment Service is quickly able to find a new employment for people changing jobs. Some shortages of basic materials and equipment do exist, but although these may slow up production in other industries, these factors so far cannot be said to have caused much unemployment of persons. There are no troubles arising from lack of markets.

The only industries in which there has been much unemployment are some seasonal ones, the chief being the sugar industry and the meat industry, both in Queensland.<sup>2</sup> The sugar cane cutting season lasts usually from July to December, while cattle slaughtering is at its height between March and September. This means that there is usually some fairly pronounced unemployment of workers in these industries during the early part of each year. It is not so marked, however, as to involve any substantial proportion of the total labour force in that State.

The areas most seriously affected are the coastal districts so far as sugar is concerned, particularly in the northern part of the State; and in the south coast and south tablelands area in the case of the meat industry.

#### REPLY TO QUESTION 4

As full employment was substantially achieved during the period 1947 up to June 1948, action by Commonwealth Employment Service has principally related to mitigating the severity of seasonal unemployment. Measures being taken include arranging for public construction programmes in the areas affected to be confined as far as possible to the periods of the year when the seasonal industries are slack. The Commonwealth and State Governments are encouraging employers to set up special industries which can be operated so as to be complementary in points of time for peak activity, to the seasonal industries. An example of

are capable and willing to undertake suitable work, and whose income (including that of dependants) does not exceed certain stipulated maximum amounts are eligible to receive the benefits, and these are payable a week after the person becomes unemployed or makes a claim for the benefit, whichever is the later. The maximum permissible income without reduction of the benefit is £1 per week.

<sup>1</sup> Detailed data submitted on unemployment ran through June 1948 but have been omitted. (Editor's note.)

<sup>2</sup> Detailed data submitted on unemployment benefit recipients in Queensland have been omitted. (Editor's note.)



this is a proposal to set up canning works in conjunction with cold stores and similar projects, the activities of which can be regulated so as to take up seasonal fluctuations in employment in the grazing and slaughtering industries.

The absence of a continuous flow of raw materials from basic industries, such as coal and iron and steel, could disorganize production in other fields and as a result, lead to some unemployment. These key industries are at present suffering from fairly acute labour shortages, and every attempt is being made, particularly through immigration and the provision of accommodation in suitable localities, to accelerate the rate of absorption of migrants.

#### REPLY TO QUESTION 5

The present economic policy of the Government has three main aspects: the control of the upward surge of inflation now so as to moderate the extent of any decline later; the introduction where practicable of "automatic stabilizers" into the economic system; and the intensification of preparations to meet a possible decline in demand. The latter aspect is discussed in replies to subsequent questions.

In regard to counter-inflationary policy, the Commonwealth has sought during the post-war years to eliminate the gap between revenue and expenditure which necessarily arose during the war period.<sup>1</sup> In 1947-48 the Commonwealth budget was balanced. Public expenditure on goods and services has been limited to avoid increasing unduly the pressure on resources; it is hoped that control of capital issues and of the advances of trading banks on a selective basis will lead to the prevention of the severe recession which could have been expected to follow an inflationary over-expansion of private investment in the post-war period.

(i) *Public works* are being postponed to avoid undue pressure on scarce labour and materials. Some of the deferred projects are urgent works of high priority which should be undertaken as soon as resources are available.

(ii) *Social services* are financed from the National Welfare Fund into which are paid the proceeds of the social services contribution and the payroll tax. The balance of the Fund at 30 June 1948, was £69.9 millions. The range of social services has been considerably expanded during the last few years. Commonwealth and State cash social service payments for 1947-48 amounted to £87 millions out of total personal income of residents of £1,589 millions. These included invalid, old age and widows pensions, maternity allowances, child endowment, relief to unemployed and destitute persons and war pensions.

(iii) *Unemployment benefits* are substantial. For the family of man, wife and first child, the benefit is £2.10.0 a week, and in addition for each child after the first, the usual child endowment at 10/- a week is

<sup>1</sup> A recent statement of government policy on taxation during the post-war period is contained in *Taxation and the Economy*. (Editor's note.)



paid. This rate may be compared with the average basic wage in the second quarter of 1948 of £5.14.0 a week and average weekly earnings by adult male manual workers in factories of £8.9.0 a week. The total payment of the benefits is likely to rise automatically if unemployment increases.

(iv) *Housing subsidies* apply to houses erected by the State Housing Authorities under the *Commonwealth-State Housing Agreement*. Rental rebates are determined for individual tenants inversely in relation to family income, the basic principle being that, regardless of the economic rent, families whose incomes equal the basic wage should not pay more than one-fifth of that income as rent. The rebate increases or diminishes as the family income falls below or rises above the basic wage. As these subsidies are financed out of consolidated revenue, their payment would be maintained or increased despite a fall in national income. The present rate of construction of houses to which this rebate can be applied where necessary is now approaching 10,000 a year.

(v) *Farm incomes* will be influenced by price safeguards in governmental contracts with the United Kingdom Government or local and export marketing arrangements and government price guarantees to producers. Those now operative are as follows:<sup>1</sup>

1. *Price guarantees.* (a) Dairy products. Returns to dairy farmers for butter and cheese are guaranteed until 30 June 1952. Prices are adjusted annually according to ascertained movements up or down in the costs of production;

(b) Wheat. Upon the Commonwealth and States passing the necessary legislation, the minimum price to the farmer will be guaranteed at a figure equivalent to the cost of producing wheat as determined by an expert committee in 1947 and as may be found to vary each season since that date according to an index of production costs. The guarantee will apply to all seasons up to and including 1952-53 under the plan and a stabilization fund will be established by means of a tax on wheat exported to meet the guaranteed price. This tax will apply when the export price is higher than the guaranteed price, being 50 per cent of the difference between the two but not exceeding 2/2d. per bushel. The guarantee, however, will be limited to that portion of the crop sold on the local market, together with a maximum of 100 million bushels for export;

2. *Export price contracts with the United Kingdom with limitations on allowable price variations.* At present the butter and cheese and the egg and egg products contracts are the only examples of this type of contract in which the variations in price are subject to limitations. The butter and cheese contract, which covers the exportable surplus, is current until 30 June 1955, and provides that while prices are subject to revision annually they may not be varied more than 7½ per cent upwards or downwards. In the case of the egg contract there are specified limits

<sup>1</sup> Excerpt from annexure to the reply to question 5 (b). (Editor's note.)



beyond which the price may not rise or fall in the last two years of the contract, which is of five years' duration. The maximum limit in these last two years is, however, lower than the present price;

3. *Export contracts with the United Kingdom with no limitation on extent of periodic price revision.* These contracts cover the exportable surplus of all meats and meat products as well as sugar. The sugar contract is made between the Queensland Government and the United Kingdom Government;

4. *Arrangements for maintenance of local price on higher level than export prices in times when these are low.* In the case of sugar and dried vine fruits, in times of low export prices, local prices have been maintained at a higher level than export prices, the grower receiving the equalized value of the two. At the present time the export price of sugar is higher than the domestic price. However, the domestic price of dried vine fruits is higher than the export price;

5. *Annual agreements with the United Kingdom without provision for variation.* Annual agreements exist for the export of apples, poultry, and honey to the United Kingdom under which prices are fixed for the period of the agreement with no undertaking that the agreement will be extended beyond one year;

6. *Reserve prices on wool.* These are set each year by the Joint Organization (United Kingdom—Dominions Wool Disposals Ltd.). If the prices offered by commercial buyers are less than these prices, the Joint Organization buys the wool at the reserved price. The reserve prices are reviewed each year. The arrangement holds during the currency of the United Kingdom-Dominions Wool Disposals Plan.

(vi) *Government and banking policy on rural advances.* During the depression in the thirties, farmers were assisted by special legislation operated, for the most part, through the banks. The legislation varied in detail from State to State, but generally provided for the use of Commonwealth moneys to relieve indebtedness. Under this scheme, rather more than 10,000 farmers had their affairs adjusted and there is reason to believe that the great majority of these have been enabled to resume their place as efficient working units. No doubt similar schemes would be introduced in any future contingency.

#### REPLY TO QUESTION 6

The Commonwealth Government seeks, so far as lies within its powers and functions, the full and best possible utilization of available resources. But there is in Australia no central planning organization with responsibility for an over-all plan of development. Even if that were desirable, it would not be practicable in Australian conditions of federalism. There are broad lines of division, either laid down constitutionally or operative in practice, between Commonwealth and State Governments and private industry's activities in regard to economic planning.



As already indicated (see reply to question 5 (a)) some control of private investment to check over-expansion has been operative during the war and since. Technical and other forms of assistance are given to secondary industry by the Commonwealth Division of Industrial Development and by other Commonwealth agencies. Apart from these, the Commonwealth's activities in regard to long and short run economic plans are confined to ensuring as far as practicable that:

- (i) All the resources of Australia are being currently used on either public or private investment programmes;
- (ii) Current programmes for public investment expenditure are consistent with the levels of private investment;
- (iii) Forward planning of public works and development projects is proceeded with to the maximum extent so as to achieve a continuous and full use of available resources.

While there is thus no allocation of resources as such, plans for development both of a short and long run nature are available for implementation in case of need. These plans will be progressively moved forward as the resources become available, and it is hoped therefore that all our resources will always be fully used. The Commonwealth and State Governments and local government authorities have programmes which are reported to the National Works Council, the constitution of which has been described earlier. (See reply to question 2.) The reserve programme of works which has been accumulated includes both short range projects which can be brought into operation to meet seasonal unemployment or pockets of unemployment, and also provides for long range projects such as water conservation and power development. The programme is based upon the total needs for the works over a period of approximately five years ahead.

Another programme is that for housing. A target of 60,000 houses completed each year (including both public and private building) has been set by Commonwealth and State Governments. This target level of output should be compared with the pre-war peak of 40,000 houses a year. Estimated demands for housing arising from new families, replacement of old houses and slum clearance needs are more than adequate to absorb this proposed supply.

Progress so far has been as follows:

<i>Year</i>	<i>Houses to be commenced</i>	<i>Houses commenced</i>
1945/46.....	24,000	25,000 (estimated)
1946/47.....	42,000	47,243
1947/48.....	52,000	53,000 (estimated)

The number of completions, however, has fallen short of the targets by approximately 10,000 in 1945/46, 15,000 in 1946/47 and 10,000 in 1947/48. The aim of reaching a rate of construction of 60,000 houses a year will probably not be achieved for some years.



In addition to the foregoing, there are other major development plans such as those relating to the coal industry, secondary industry generally, shipbuilding, mineral resources, aircraft construction, aluminum production, many of which are still in the survey stage.

#### REPLY TO QUESTION 7

(a) *Increased governmental expenditure on goods and services including*

(i) *Public works and development projects*

The Government has recognized the undesirability of expanding public expenditure on works and development projects in the period following the end of the war when private investment was making heavy demands upon the economy. It is possible, however, that public expenditure will move to a higher level if and when the requirements of private investment decrease.

As indicated in the reply to question 6, the National Works Council is building up a reserve of Commonwealth, State and local government works projects awaiting the availability of resources. Emphasis is being placed upon increasing the proportion and diversity of those works which are planned to the "ready to commence" stage.

Small scale projects to be carried out by local government authorities are considered to be desirable features of this reserve of works owing to the facility with which they can be commenced and their dispersion over a wide area.

The National Works Council's reserve now comprises works totalling £570 million in value of which £245 million are planned to the "ready to commence" stage. These figures can be compared with the current expenditure of approximately £100 million on works (Commonwealth, State and local government) for 1947-48.

This programme is capable of being progressively brought into operation in order to offset a decline in similar types of work financed by private investment. For instance, should a decline take place in the construction of privately financed housing while a considerable need for houses still exists, the housing programme being undertaken by Governments could be increased. Where private building such as the construction of factories falls off, an increase in government building of hospitals, schools, telephone exchanges and similar projects could be endorsed. Similarly, engineering works such as roads, railways, water schemes and other developmental projects could be initiated or expedited if the labour supply permitted.

(ii) *Investment by existing publicly owned enterprises*

The authorities in control of publicly owned enterprises other than those falling within the scope of the National Works Council are examining the possibilities of achieving a speedy expansion of investment programmes in case of need. This survey is being carried out initially in respect of Commonwealth owned undertakings and those industries in



which the Commonwealth has a substantial investment in association with private industry, but it is hoped to extend its scope to State owned undertakings subsequently.

(iii) *Other measures: specify*

The possibility of using slum clearance as a measure to offset unemployment is the subject of close study. At present, two States have initiated slum clearance projects which will serve as "pilot studies" for any large scale slum clearance activity that may be necessary in the future.

(b) *Stimulating consumption through*

(i) *Increased payments (in money or in kind) of allowances, benefits, pensions, etc.*

See the reply to question 5 (b) on unemployment benefits.

(ii) *Subsidies with the view of reducing prices or raising wages in private enterprises*

No specific plans have been prepared for subsidizing prices or raising wages in the event of a decline in effective demand.

(iii) *Reducing profit margins in governmental enterprises; in private enterprises*

No specific plans have been prepared, but past experience has been that expenditure on a number of government activities tends to be maintained at a fairly high level despite any fall in revenue.

(iv) *Reduction or change in the structure of taxation*

No specific plans have been prepared.

(v) *Other measures: specify*

No comment.

(c) *Encouragement of private domestic investment by*

(i) *Reduction or adjustment of taxes*

No specific plans have been prepared.

(ii) *Facilitation of credit*

The Commonwealth Bank<sup>1</sup> has not drawn up any programme to meet a deficiency in effective demand, but is in a position to make use of various provisions in legislative enactments and associated regulations, to combat such a deficiency.

Subject to the general requirements of the Government's economic and financial policy as determined at the time, the Bank will be able to encourage the creation of credit by the Australian trading banks, by relaxing the present qualitative restrictions which it maintains on bank

<sup>1</sup> The annexure containing the statement of the functions of the Commonwealth Bank of Australia has been omitted. (Editor's note.)



advances. It will also be able, by the creation of central bank credit, to maintain the liquidity of the trading banks, and to give them every encouragement to make advances. The control over capital issues which is maintained along more or less parallel lines to the control over bank advances can also be relaxed, and avenues of investment such as for consumer credit which have hitherto been constricted by the control would be widened.

The Commonwealth Bank is also able, through its various trading departments, to add substantially to the credit available for general banking purposes, and in particular, it can provide substantial increments of bank finance for housing, small industries and consumer credit. These marginal injections of finance are likely to be of considerable significance in any deflationary situation which may develop, not only because they would add to the central bank credit available, but also because they would maintain competitive pressure on the trading banks.

(iii) *Reduction of interest rate*

During the war, interest rates have been substantially reduced in Australia, and it is accepted government financial policy to keep rates low and stable, rather than to use variations in interest rates as an instrument of economic policy. Unless there is a change in current policy, it can therefore be expected that Australia will move into any deflationary situation with her interest rates already at a relatively low level. There is not thus likely to be much scope for any substantial reduction in interest rates, but any tendency for an increased demand for liquidity to raise rates will be resisted. A low level of interest will help to encourage private investment, and the Bank will try to prevent a rise in the yield of government securities on Australian markets.

(iv) *Other measures: specify*

No comment.

(d) *Increasing net exports by means of*

(i) *Government grants to foreign countries*

(ii) *Government loans to foreign countries*

(iii) *Encouraging private loans to foreign countries or direct foreign investment; if so, what measures are contemplated*

Australian grants and loans made since the end of the war have, it is considered, contributed to raising post-war trade levels and to the restoration of production in devastated countries. However, it is improbable that Australia will have any tendency to chronic surplus in her balance of payments, and the practicability of large scale lending does not therefore appear great. No proposals in this regard have been considered.

(e) *Any other measures: specify*

No comment.



## REPLY TO QUESTION 8

Factors operating as "automatic economic stabilizers" (see reply to question 5 (b)) could operate immediately. The works in the National Works Council's reserve could be moved forward to the stage of commencement as soon as any decline in other forms of activity can be foreseen. Appropriate changes in the Government's financial and banking policy might also be made as far as practicable in advance of any foreseeable change in demand.

In regard to methods for anticipating the time of the downturn and its extent, the relevant statistics in the economic field collected by the Commonwealth Bureau of Census and Statistics and those related to general and specific employment trends covered by the Commonwealth Employment Service are constantly under review by the departments concerned with economic policy. The Commonwealth Bank undertakes a monthly examination of the employment situation, and of various statistical indicators relating to the internal and external situation, such as manufacturing and retail activities, investment indicators, prices for the principal export products, trade movements and the Australian balance of payments.

The responsibility for policy decisions rests with the Government. To enable the Government to be kept regularly informed about the current position and likely developments, the Ministers primarily concerned with economic policy meet with officials at frequent intervals to review investment and employment trends. Reports for these meetings are prepared by working committees of officers from the Treasury, the Departments of Post-War Reconstruction and Labour and National Service, and the Bureau of Census and Statistics. A typical review of the current economic situation and prospects prepared by a working committee has been enclosed (see the reference to this in the reply to question 2).

There is no accepted forecasting index in use in Australia of the kind used from time to time in some other countries, and there is no precise or invariable method followed in using statistics to forecast the time and extent of any downward turn. The general method is to study critically the trends in individual statistical series and to use general impressions combined with historical precedents in order to assess the imminence of any downward tendency in effective demand. The most important of the regular series of statistics collected by the Bureau of Census and Statistics which are used in this connexion are those of employment and unemployment, export prices and external trade generally, other price movements and the production of various commodities, especially of basic materials.

Approximately sixteen months ago, a new collection was started in which selected firms were asked to estimate their expenditure on buildings, plant and machinery during the preceding six months and for the next two succeeding six-monthly periods. These enquiries are similar in nature to those undertaken in other countries, notably the



United States and Canada. As experience is gained with them, they should be of considerable value in gauging possible future movements in the level of private investment and inventory accumulation.

A certain amount of work has been recently done in the Bureau of Census and Statistics in the direction of projecting a system of social accounts to indicate how the transactions of the various sections of the economy have moved in the immediate past and how they may be expected to move in the future on the basis of changes in the various components (such as investment, prices and employment) which can be reasonably anticipated.

In Australia, a recession could arise from fluctuations in private investment, but on past experience, the time and extent of any "downturn" is more likely to depend on the movement in external prices for Australian exports which are mostly primary products. For this reason, a careful review is maintained of changes in economic conditions overseas. The movement and tendencies of export prices are very closely examined, and considerable attention is given to watching the figures of consumption and stocks, as well as production in other areas, of Australia's main export products.

#### REPLY TO QUESTION 9

No answer to this question is possible in advance, and no doubt the actual policies adopted would need to be determined in the light of all current circumstances.

#### REPLY TO QUESTION 10

No limitation is set by statute on an increase in the public debt, nor has any precise policy been formulated in regard to balancing the budget over longer periods or reducing the public debt. However, deficits incurred in times of recession are to some extent offset in times of buoyant revenue by redemption as far as practicable when loans become due of short term debt and the operation of the National Debt Sinking Fund.

#### REPLY TO QUESTION 11

It is hoped that problems of labour transfer will not arise in any form as a result of the maintenance of high and stable levels of employment. However, should the need for such transfers arise, the Australia-wide organization of employment offices built up by the Commonwealth Employment Service will facilitate the movement of labour from one job to another or from one district to another. Particular attention is being paid to the study of labour transferability through detailed research into occupations and "job families".

To meet the possibility of a decline in farm incomes, considerable emphasis has been placed in the National Works Council's reserve on widely dispersed small scale projects carried out by local authorities, such as soil conservation, irrigation and afforestation which are particularly suitable for employing rural workers. The policy of decentralization of



industry being followed by several State Governments will also ensure a greater variety of employment opportunities in country areas.

Provision exists whereby the Commonwealth Employment Service may, through its District Employment Officers, issue a travel warrant to a worker for travel to another place to undertake employment. The cost is repayable either by the worker or by the new employer. In the former case, the worker signs an agreement authorizing the new employer to deduct the amount involved from his wages and remit it to the Employment Service.

The arrangement whereby the employer agrees to bear the cost of the fares of workers referred to him for employment has been used fairly extensively in relation to the recruitment of seasonal workers for rural industries.

In addition, where financial assistance is needed to maintain the worker during travel, a cash advance may be made, which is repayable on similar terms to those relating to the cost of travel. It has not been necessary so far to invoke this latter provision to any great extent.

This machinery for rendering the labour force more mobile could be developed extensively should the need arise.

#### REPLY TO QUESTION 12

(a) So far as available overseas reserves did not provide the margin necessary for safety, direct control of the Australian balance of payments including the use of exchange control and quantitative restriction on imports would be introduced to the extent that was required. Adjustment of the Australian exchange rate in order to prevent any deflationary external movement from being transmitted to the Australian price and cost structure might be necessary to maintain full employment. Any action contemplated would be taken only with due regard to Australia's obligations under the International Trade Organization and International Monetary Fund Agreements. Sections 85 to 92 of the paper *Full Employment in Australia* discuss more fully possible courses of action to meet balance of payments difficulties.

(b) It is not possible to forecast in advance what types of assistance would be sought from the specialized agencies of the United Nations.

(c) Generally, the maintenance of employment and of continuous programmes of development throughout the world would assist the implementation of a full employment policy in any one country.

Agreements whereby the prices of agricultural products were prevented from rising above or falling below agreed maximum or minimum levels would assist the maintenance of stability in Australia. The Australian Government is willing to enter into discussions with importers and other exporters of agricultural products on this subject.

#### REPLY TO QUESTION 13

The economy of the Non-Self-Governing Territories of the Common-



wealth is largely subsistence agriculture and the maintenance of full employment in these areas is not therefore a problem.

#### REPLY TO QUESTION 14

In Australian conditions, difficulties must be expected to arise in implementing investment and employment policy as a result of the division of powers between Commonwealth and State Governments. The Commonwealth has, in general, wide financial powers, but is more limited in other sections of economic policy.

The problems involved in planning and giving effect to policy through agreement with six State Governments, together with the fact that the techniques of full employment planning have not yet been fully developed or tested by experience must be emphasized. It is hoped that it will be practicable to supply a supplementary report at a later stage upon some of the difficulties encountered in planning for full employment, particularly in the field of public investment.

The Commonwealth Government wishes to emphasize the great importance of a high level of international trade to the maintenance of employment and national income in Australia. In the past, fluctuations in economic activity have tended to derive from overseas rather than from domestic forces. The Commonwealth Government would therefore welcome action by all countries to maintain employment at high levels and to carry out continuous programmes of development.

The Commonwealth emphasizes the desirability of introducing "automatic stabilizers" wherever practicable into the international economic field. As a special and integral part of this policy, efforts to stabilize the income of primary producers through such means as commodity agreements have the strong support of the Australian Government.

#### 4. Reply of Belgium

##### REPLY TO QUESTION 1

The Belgian Government has made a formal commitment to employ all means within its power to combat unemployment and to ensure the highest possible level of employment.

This commitment is contained in various ministerial declarations, in particular in the declaration of 30 November 1948 an extract from which is quoted in this reply.

It should be emphasized that in a country like Belgium whose economic activity is directed essentially towards the manufacture of imported raw materials into high-grade semi-finished and finished products and towards the providing of international services, the problem of employment is related above all to the problem of foreign trade. Foreign trade assumes even greater importance because the productive capacity of Belgian industry is far in excess of the absorptive capacity of the domestic market.



It is therefore natural that the Belgian Government should attach the greatest importance to the maintenance and expansion of external markets as a means of ensuring the full employment of the nation's labour force. Employment policy in Belgium is therefore essentially related to the success of foreign trade policy.

#### REPLY TO QUESTION 2

The Government declaration referred to above also provides a clear answer to question 2 regarding the agencies responsible for the implementation of employment policy.

The declaration states:

"The problem cannot be tackled and solved by a single Minister. The success of the campaign against unemployment is dependent on measures which will be taken by the Government as a whole; it depends as much on the Minister of Labour as on the Minister of Economic Affairs and as much on the Minister of Foreign Trade or of Communications as on the Minister of Reconstruction or Public Works.

"What is needed is one Minister who will concentrate his energy on the campaign we are going to undertake. That Minister will be the Minister of Economic Co-ordination. It will be his function to submit to the Committee for Economic Co-ordination such measures as are required and to supervise the implementation of the measures entrusted to each of his colleagues within their respective spheres of responsibility."

Since employment policy in the last resort derives from the general policy of the country, the central agency responsible for the over-all direction of employment policy is the agency responsible for ensuring the unified economic policy, i.e. the Ministerial Committee for Economic Co-ordination whose secretariat is provided by the Minister of Economic Co-ordination referred to in the Government declaration quoted above. The texts of the Royal Decrees laying down the terms of reference and organization of the Ministerial Committee are annexed to this note as are the Decrees relating to the Inter-ministerial Economic Commission whose headquarters are in the Ministry of Economic Affairs and of the Middle Classes. The Commission does the preparatory work of the Ministerial Committee on an administration level and is responsible among other things for the "observation, analysis and appraisal of economic trends to determine the need for and the type, timing and magnitude of possible governmental intervention".

The execution of plans, programmes or projects is the responsibility of the various departments and agencies concerned (for example, the Unemployed Maintenance Fund, one of whose functions is the placing in employment of persons seeking work) within their individual spheres of action. The establishment of new agencies seems superfluous as the existing agencies have been planned in such a way as to be able to deal with the various contingencies.



## REPLY TO QUESTION 3

*Magnitude of average unemployment and its relation to total workers for the year 1947<sup>1</sup>*

The average daily number of registered unemployed workers during 1947 was 67,650:

Totally unemployed, 35,639;

Part-time and casual, 31,921.

The average figure is 3.7 per cent of the total number of persons covered by compulsory unemployment insurance. Although the over-all figures show a decline of 25 per cent as compared with 1945, a tendency to increase developed towards the middle of 1947.

## REPLY TO QUESTIONS 4, 5 AND 6

(a) As was pointed out above, the maintenance of a high level of employment in an essentially manufacturing and exporting country like Belgium would be completely impossible without the existence and expansion of a large volume of trade.

Any government policy to counter unemployment must therefore include among its primary objectives maintenance of markets, restoration of multilateral trade throughout the world and especially in Europe and, in general, any action to promote international economic co-operation.

It is for this reason that the Belgian Government has made every effort to contribute to the effectiveness of both the Charter of the International Trade Organization and the Organization for European Economic Co-operation.

It should be emphasized that unless systems of co-operation of this kind are put into effect, no measures affecting the domestic market could ensure the maintenance of normal economic activity in Belgium.

(b) However, one far-reaching measure for the expansion of the domestic market is in the process of realization, namely the Belgo-Netherlands-Luxembourg Economic Union. Because of the complexity of the problems to be solved, the Union will not, however, become effective before 1 January 1950 at the earliest.

(c) Finally, as regards the Belgian domestic market, within its present area, the Government has at its disposal two strategic weapons whose use at the proper time should allow it to offset the effects of a decline in effective demand.

1. In view of the high level of economic activity in Belgium since the liberation, the Government has hitherto postponed the execution of almost all the major public works programmes prepared during the past years. It has also as far as possible postponed work on the repair and the modernization of the road system and even the repair of war damage.

<sup>1</sup> Detailed tables and paragraphs concerning unemployment in 1947 have been omitted. (Editor's note.)



With full employment it would not in fact have been possible to carry out these programmes without serious risk of inflation. However, now that industrial and business activity shows signs of slackening, the Government might accelerate:

(1) Planned public works (electrification of the railways, widening of canals, modernization of the road system, etc.);

(2) Building of low-cost housing, houses for miners and dwellings for the middle classes, which the State will assist by means of bounties and guarantees;

(3) Repair of war damage.

2. In order to check inflationary tendencies, the Belgian Government had since 1946 practised a policy of credit restriction. As will be explained below in reply to question 7 (c), it will be possible in due time gradually to relax the present regulations, which will restore the flexibility of the money and capital markets.

(d) The payment of unemployment benefits without any increase of social security contributions is formally guaranteed by current legislation.

#### REPLY TO QUESTION 7

(a) *Increase of governmental expenditures on goods and services*

See replies to questions 4, 5 and 6 above.

It should however be pointed out that, at least at the present stage, there can be no question of carrying out public work programmes, programmes for the repair of war damage and for the construction of houses by unbalancing the budget, in other words by having recourse to inflation.<sup>1</sup> The repair of war damage is financed by means of loans. Provision is already made for the other works in the 1949 budget, which is balanced. A balanced budget is in fact an essential pre-requisite from the point of view of promoting productive saving, i. e. investments, the development of which must ensure the maintenance of effective demand. At present a significant volume of such savings is sterilized as a result of lack of confidence. The restoration of confidence is now, in Belgium, dependent on the long awaited return to a balanced budget.

(b) *Encouragement of consumption*

At the present stage, measures to stimulate consumption are not envisaged; measures of this kind were taken earlier, notably by the granting of coupons and allocations.<sup>2</sup> As was stated above, what must be stimulated is productive saving.

<sup>1</sup> It seems from the context that "unbalancing the budget" refers here to the financing of the capital expenditures in question by means of bank credit in the ordinary budget. (Editor's note.)

<sup>2</sup> The second half of this sentence apparently refers to the distribution of given supplies and not to the stimulation of total consumption. (Editor's note.)



(c) *Encouragement of private domestic investment*

1. There does not seem to be any need to contemplate a reduction of taxes generally; the need for a balanced budget on the one hand and the decline of revenue from some taxes which would inevitably lead to a decline in effective demand on the other hand, make it necessary to proceed very cautiously with reductions or re-adjustments of taxes. A fiscal reform is now being worked out; it is aimed principally at the simplification of legislation.

2. The policy of credit restriction from both the qualitative and quantitative point of view, hitherto adopted, would be relaxed or even abandoned according to the seriousness of the situation arising as a result of deficiency of effective demand. Consideration might also be given to a relaxation of the regulations governing bank credit.

3. The fact that the authorities have not so far had resort to a cheap money policy, means that there is freedom to manoeuvre and that the various interest rates could be reduced.

4. The reply to (a) above.

(d) *Increase of net exports*

1 and 2. As regards government grants to foreign countries, mention may be made of those granted within the framework of the Marshall Plan as a counterpart to conditional aid. In view of the size of the loans Belgium has already granted to several nations (at one stage these loans amounted to more than 13,000 million francs and still stand at about 11,000 million francs) and their inflationary effects on the monetary situation at home, there can be no question of still further increasing such aid to foreign countries.

3. The making of private loans and investments abroad has a direct effect on the exchange situation. The Belgian-Luxembourg Exchange Institute, the agency whose authorization is required to carry out transactions of this kind, adopts at present an extremely liberal policy. This aspect of the problem, although not positive in character since the Institute considers the question from the point of view of exchange control, is nevertheless important. The systematic encouragement of such transactions can be considered only to the extent that they do not prejudice the monetary situation at home.

It should however be noted that consideration is now being given to the possibility of broadening the present work of the National del credere Office as regards guarantees for export loans.

REPLY TO QUESTION 8

The time at which it would be possible to take action is conditioned by the degree of sensitivity of the methods used to detect the decline in effective demand. Among the indications available, mention may be made of trends in the order books of certain industries and their pro-



duction indices; the indices for the sale of consumption goods in department stores and co-operatives, unemployment statistics and revenue from the turnover tax. These factors provide a picture of the situation with a lag of about a month; in any case it is impossible to diagnose a decline in effective demand on the basis of data relating to too short a period. One must be certain that there is in fact a trend. It would therefore seem advisable to take steps of the kind referred to above (credit-interest rates) only after the decline in demand has developed to a certain extent.

#### REPLIES TO QUESTIONS 9 AND 10

The increased government expenditure resulting from the execution of a full employment programme must not, it is considered, be met by recourse to increased taxation. Since in such circumstances there would be a revision of monetary policy aimed at a reduction of interest rates, the authorities might issue loans on better terms in order to meet the budget deficit. The burden of public debt is not, however, a serious problem in Belgium; in 1947 it amounted to only 3.7 per cent of the national income. Some increase in the burden of the public debt can therefore be accepted without any serious damage to the economy.

#### REPLY TO QUESTION 11

Problems arising in certain cases, as a result of the need to transfer labour obviously could not be solved by the organization of compulsory transfers.

On the other hand, everything will be done to promote and encourage voluntary transfers.

This concerns specially transport facilities which are highly developed in Belgium. These facilities include the organization of public transport (railways, local lines and trams, buses etc.) as well as the issue of workers' tickets at reduced prices.

On the other hand, the system for placing unemployed workers involves the organization of a national clearing house for each trade; every unemployed person is required to accept "suitable employment" in a district other than that in which he resides.

Finally, the Unemployed Maintenance Fund has organized a vocational retraining service designed to facilitate transfer from one trade to another.

#### REPLY TO QUESTION 12

The measures which might be taken obviously depend on the causes of such a decline in exports.<sup>1</sup>

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<sup>1</sup> The form taken by this problem will depend on whether the bilateral payment system is retained or abandoned. It is hardly possible to reply to this question with any degree of certainty without knowing the future of multilateralism.



(a) If the situation arose as a result of payment difficulties on the part of our customers, reduction of imports from such countries would be inappropriate.

If, on the other hand, the export difficulties were due to excessively high Belgian prices, different remedial action—a programme of rationalization, or even monetary adjustment—might be envisaged. The deficit might also be offset at least partly by a reduction in imports.

(b) Belgium might request a loan from the International Monetary Fund.

(c) If the decline in exports were the result of barriers to the normal flow of international trade (customs barriers, dumping, etc.) or of failure to observe commercial agreements, the convening of international conferences to study these questions might be requested. The question of the revaluation of gold might also be raised.

## 5. Reply of Czechoslovakia

### REPLY TO QUESTION 1

The Czechoslovak Government has undertaken commitments concerning policies and programmes to promote full employment and economic stability in paragraph 26, sections 1 and 2, and paragraph 162 of the Constitutional Charter of the Czechoslovak Republic of 9 May 1948 (Law No. 150 of the year 1948) as also in Law No. 104 of the year 1945 concerning factory and employees councils (paragraph 20), in the Decree No. 88 of the year 1945 concerning the general obligation to work (part II), in the Law No. 18 of the year 1946 concerning the employment relationship of persons called up for military service, in the Law No. 164 of the year 1946 concerning provision for disabled ex-service men and victims of the war and of fascist persecution (paragraph 96), in the Law concerning the Two-Year Economic Plan No. 192 of the year 1946, in the Law No. 87 of the year 1947 concerning certain measures for the carrying out of a national mobilization of labour. Provisions for ensuring a steady expansion of Czechoslovak economy and its resistance to the influences of economic crises are embodied in the law concerning the First Five-Year Economic Plan.

### REPLY TO QUESTION 2

For implementing the programme of full employment, a programme which of course in the Czechoslovak economic and social system appears only in the closest connexion with the general economic plan, certain special agencies outside the central and local organs that are charged with the carrying out of the various sections of this policy, have been set up. Among these organs there are, in particular, the Economic Council, the State Planning Office, and all the Ministries concerned with economic matters, and the subordinate offices of these Ministries. The answer to the questions under *litera* (a) to (c) is given in the provisions of Decree



No. 63 of the year 1945 concerning the Economic Council, and the provisions of Decree No. 144 of the year 1945, of the Decree No. 145 of the year 1945, and the Law concerning the Two-Year Economic Plan (No. 192 of the year 1946).

#### REPLY TO QUESTION 3

Precise figures relating to employment cannot for the moment be given owing to the lack of appropriate basic statistics. Taking other related statistical bases, the number of all workers may be indirectly estimated at 6 million (independent workers and those who are employed by others). As the population of the whole of the Czechoslovak Republic is roughly 12 million it may be taken that on the average 50 per cent of all the inhabitants are engaged in gainful occupation. In view of the fact that in 1947 the official labour exchanges had in their registers an average of merely 1,005 persons of the so-called unemployed category, that is, persons for whom by reason of their particular character of physical or mental condition suitable employment could not be found, it may be said that the problem of unemployment is practically non-existent in the Czechoslovak Republic. The proportion of unemployed (1,005) to the population of the country (12 million) is expressed in the figure of 0.0083 per cent. The remnant of non-workers who may perhaps still be capable of work cannot be regarded as unemployed in the real sense of the word, for they have obviously no interest in work, or they even shirk it. It may therefore be assumed that employment is at its peak. In view of the above, it is unnecessary to answer the questions under *litera (a) to (c)*.

#### REPLY TO QUESTION 4

Reply not necessary.

#### REPLY TO QUESTION 5

(a) Kindly refer to answer given to question 2.

(b) 1-4. All economic activity is directed by a uniform economic plan which aims at developing the maximum economic operations; it is therefore impossible that in some branches or in some areas a decline in the demand for labour should set in which could not be made good under the plan in relation to branches or areas by other means which are at disposal for regulating the labour market (in particular Law No. 87 of the year 1947). In this connexion provision is made for granting necessary assistance in finding work for persons (Government Order No. 250 of the year 1943) and for a planned regulation of the prices of agricultural produce (point 3).

#### REPLY TO QUESTION 6

The answer is given in the text of the economic plans (Law of the Two-Year Plan, No. 192 of the year 1946, and Law of the Five-Year Plan which is just under discussion in Parliament).



## REPLY TO QUESTION 7

In a planned economy unemployment cannot arise as the consequence of a deficiency in effective internal demand, for private and public consumption are also planned, which is made possible by planning prices and incomes. Unemployment could only arise as a result of the non-fulfilment of the planned programme of the import of raw materials or the export of finished goods. In such a case remedy would be sought in a suitable amendment of the plan. What means would be used to this end would depend on the particular case; planned economy possesses the widest possibilities in this connexion.

## REPLY TO QUESTION 8

The use of labour is planned so that all defects would be ascertained from the beginning, and steps taken to remedy them.

## REPLY TO QUESTION 9

The programme of full employment in planned economy does not call for special governmental expenditure in carrying it out. Should depression arise in the labour market it could be met, as stated above under 7, by other means than the grant of unemployment relief.

## REPLY TO QUESTION 10

This question has been partially answered in the reply to question 9. The financial authorities of the State do not anticipate that maintenance of full employment would call in this country for increased budgetary expenditure, and the covering of it partly or wholly by increased taxation, that for the reason stated a budget deficit would arise, or that it would be necessary to increase demand (or stimulate consumption) by governmental action.

## REPLY TO QUESTION 11

The necessary measures would depend on the given situation and it is not possible to answer the question concretely beforehand. Authorization to take appropriate measures is given by the provisions of Decree No. 88 of the year 1945, and by Law No. 87 of the year 1947.

## REPLY TO QUESTION 12

Possible difficulties in maintaining the balance of payments arising from a decline in exports would probably occur only in one or some few sectors and in the case of one or some few countries, and could therefore be met to a considerable extent by a change in the import and export plan. The probability of the occurrence of such difficulties is to a certain extent lessened in contacts with States having a planned economy, for in their cases the development of imports and exports is more stable than in the case of countries that do not plan their imports and exports.



## REPLY TO QUESTION 13

This question has no application to Czechoslovakia.

## REPLY TO QUESTION 14

We are of the opinion that a policy of full employment can in all directions, that is, in those too which are not covered by the memorandum under the resolution of the Economic and Social Council, be best pursued and assured in a consistently planned economic system under the assumption of a maximum of international economic and political stability and co-operation.

### 6. Reply of Burma

The reply of the Union Government of Burma states that "although the Union Government of Burma is greatly interested in the memorandum . . . concerning employment . . . it feels that no useful purpose would be served by answering the questionnaire contained therein in view of the following reasons:

" (i) The questionnaire, referred to above, is designed primarily for the problem of unemployment in industrially developed countries and is only remotely related to such problems of an industrially backward country like Burma;

" (ii) The so-called 'unemployment' in Burma is not in the nature of mass unemployment caused by a lack of 'effective demand', but is merely in the nature of 'frictional' and 'structural' unemployment caused by the economic dislocation after the war. Another type of unemployment, which though not emphasized by the questionnaire, is nevertheless very important to Burma is 'disguised unemployment' in agriculture;

" (iii) Although the export of rice occupies a very important place in its economy, Burma is too small in relation to world economic magnitude to be a source from which mass unemployment may spread to other countries. If there is any mass unemployment in Burma in the future, it will not be caused by a reduction in internal effective demand but by a fall in the price of rice in the world market. That is to say, the most important source of unemployment in Burma is a decline in prices of raw materials caused by the depression generated elsewhere.

"Thus while it is theoretically interesting to contemplate the possibility of Burma protecting its economy by a fund to stabilize the price of rice, its resources are too slender to enable it to counter a severe depression generated from abroad. The duty of maintaining effective demand and a high level of employment would, therefore, seem to rest mainly with the employment generating countries of America and Western Europe. The Union Government of Burma would, however, do its best to prevent a decline in internal effective demand as far as the slender resources of the country allow, but the fact still remains that



it would have to rely ultimately on the maintenance of effective demand and high level of employment in other industrially more developed countries."

## 7. Reply of India

### REPLY TO QUESTION 1

The Government of India do not have any specific employment programme though they have accepted certain commitments, as explained below, to provide full employment to the greatest possible extent. They are mindful of the necessity of utilizing all resources for the development of the country and for raising the standard of living of the people. An extract from the Government resolution outlining industrial policy is reproduced below:

"The nation has now set itself to establish a social order where justice and equality of opportunity shall be secured to all the people. The immediate objective is to provide educational facilities and health services on a much wider scale, and to promote a rapid rise in the standard of living of the people by exploiting the latent resources of the country, increasing production and offering opportunities to all for employment in the service of the community. For this purpose, careful planning and integrated effort over the whole field of national activity are necessary; and the Government of India propose to establish a national planning commission to formulate programmes of development and to secure their execution."

A consequence of this policy would be to endeavour to achieve full employment in every possible way. The draft Constitution also contains a statement of policy in this respect. Sub-paragraph (i) of paragraph 31 of chapter IV provides as follows:

"31. The State shall, in particular, direct its policy towards securing (i) that the citizens, men and women equally, have the right to an adequate means of livelihood."

Recently the economic life of the country has been greatly affected by the movement of people from Pakistan into the Indian territory. Providing employment for such displaced persons is the immediate task of the Government of India.

### REPLY TO QUESTION 2

The Government of India has established a Directorate-General of Resettlement and Employment which is concerned with the question of employment and training. This organization has nine regional directorates and fifty-four employment exchanges throughout the country. Since the establishment of these exchanges in July 1945, as many as 421,024 persons have been provided with employment (up to the end of July 1948). The Directorate-General has, in addition, a programme for



technical and vocational training which has benefited 8,875 persons. This organization is also responsible for collecting statistics of registration, placings, vacancies, engagements and discharges in connexion with central Government undertakings. On the basis of additional information received from every employment exchange and the regional Directorates analyses of trends of employment are prepared. This work is, however, still in the initial stages and the Government of India hopes to undertake more substantial research which will enable it to publish precise information on the subject.

#### REPLY TO QUESTION 3

In the absence of complete statistics relating to employment and unemployment it is difficult to estimate the magnitude of the average total unemployment and its relation to total workers for the year 1947. No data have yet been collected in respect of (1) agricultural workers who constitute the largest single group of workers in India; (2) labour employed on building and construction workers; (3) transport workers excluding railway employees; and (4) workers in shops and commercial establishments etc. Figures in respect of factories, mines, plantations and railways are, however, available. Undivided India provided employment for 180 million approximately.

The only figures on the basis of which the trend of unemployment can be studied are those available with the employment exchanges. These figures reveal that at the end of 1947 there were 226,440 unemployed—of these, 53,763 were persons displaced from Pakistan who had migrated to the Indian Union. It has not been possible to attempt a breakdown of these figures by industries.

The existing unemployment in India may be ascribed to the following:

- (i) The displacement and transfer of about two million people to the India Union from the Provinces which have been constituted into Pakistan;
- (ii) Demobilization and the closing down of establishments catering to the needs of the last war;
- (iii) Inadequacy of capital goods, both for replacement of wornout equipment and for expansion of existing industries.

#### REPLY TO QUESTION 4

No special steps have been taken to eliminate unemployment, but it is hoped that the programme of industrial, agricultural and social development undertaken by the Government of India will open new avenues of employment and so help eliminate unemployment. Various public works schemes, hydro-electric schemes and housing schemes are being pursued with vigour both by the central and the provincial governments.



## REPLY TO QUESTION 5

Even though development plans and grants to Provinces to execute them were envisaged in 1945 when a slump was anticipated, the problem at present facing India is one of inflation and, consequently, it has been decided to reduce public expenditure on all schemes excepting those which are designed to meet long term requirements of important development and production. There is at present no provision for the payment of unemployment benefits.

With regard to question 5 (b) (3) the position is that before 1939 the State guaranteed minimum prices only in respect of sugar cane in two Provinces, namely, Bihar and the United Provinces where the sugar industry was mainly concentrated. During the war, however, it was not so much a question of putting a "floor" on agricultural prices as of enforcement of ceiling prices; the Government had price brackets for selected cereals (e. g. wheat, jowar, bajra), cotton, jute and sugar. These restrictions were gradually removed with the end of the war but a "floor" was re-imposed in regard to cotton when prices of cloth soared up consequent on its decontrol. The Government have guaranteed to support cotton prices by a purchase programme whenever prices threaten to fall below the guaranteed minimum. The price policy of sugar cane initiated in 1934 continues to be in force.

Since it was feared that the high prices ruling during war time might collapse, a demand was made that the Government of India should take steps to guarantee to producers an assured market at a remunerative price for agricultural produce. Accordingly, the Government of India appointed the Prices Sub-Committee of the Policy Committee on Agriculture, Forestry and Fisheries, to report on this problem. The following are the main recommendations of the Prices Sub-Committee:

(i) Minimum and maximum prices should be initially fixed for cereals such as wheat, rice, jowar and bajra and later, extended to commercial crops like cotton, jute and animal husbandry products;

(ii) For this purpose, an All-India Agricultural Prices Council should be established to formulate the price policy from time to time. It should have under it a Price Determination Commission to calculate the minimum and maximum prices and a Commodity Corporation to enforce the prices fixed, by undertaking open market operations in respect of certain selected commodities.

The recommendations of the above Sub-Committee are at present under the consideration of the Government of India. At the beginning of the current year the Government of India decided upon a policy of gradual de-control of food grains. In view, however, of the unsatisfactory results of this policy, it has been recently decided to revert to a policy of complete control to be achieved in stages by the last quarter of 1949.



## REPLY TO QUESTION 6

The Government of India have drawn up a development plan.<sup>1</sup> The various schemes in the plan are, however, all liable to be reviewed in the light of the measures which the Government of India have recently adopted for checking inflation.

## REPLY TO QUESTION 7

The question of a deficiency in effective demand has not so far arisen in India. On the other hand the problem before the country is, as has frequently been emphasized by the Government, one of acute scarcity of essential commodities, in relation to the existing demand. The Honourable the Minister of Industry and Supply while opening the Industries Conference in December 1947, stated, "the gap between spendable income which is growing and the volume of goods which is dwindling is widening every day". No great danger exists for the present at any rate of unemployment developing as a result of a decrease in demand, and the need for drawing up programmes to offset such unemployment has, therefore, not been felt.

## REPLY TO QUESTIONS 8, 9 AND 10

In view of what has been stated above in answer to question 7, the points raised in questions 8, 9 and 10 do not arise for the present.

## REPLY TO QUESTION 11

This problem has actually come to the forefront as a result of partition. The problem of transfer of labour has not yet been pursued in a scientific manner and until the present, persons who lost their employment as a result of partition, were evacuated and brought to refugee camps where they were registered for employment and other forms of assistance. Some have been settled on lands. Others have been employed on the construction of roads and canals; still others have moved to areas where industrial activity has commenced and found employment through the employment exchanges. Those who applied for financial assistance to renew their own trade or small-scale industries have been given the necessary help. It cannot, however, be said that a planned dispersal of labour has as yet taken place.

## REPLY TO QUESTION 12

India has been suffering from the effects not only of internal inflation but of a very large increase in the price of its imports. The high prices of essential capital equipment, most of which is obtainable only in the Atlantic countries, and of food (e. g. Argentine foodgrains) have adversely affected India's balance of payments. The following methods have been envisaged by the Government to overcome the difficulties resulting from this development:

<sup>1</sup> Five-Year Post-War Development Plan of the Ministry of Works, Mines and Power.



(i) India will welcome private foreign capital investment in the country free from any political conditions and will create suitable atmosphere for its successful operation;

(ii) India will also encourage private and government sponsored investments;

(iii) With a view to stopping, or at least restricting, the food imports from abroad, steps will be taken to increase the production of food-stuffs in the country;

(iv) Control will be imposed on imports which will be confined to durable capital goods and other essential goods;

(v) Efforts are being made to get an adequate portion of sterling balances converted into hard currencies in order to finance Indian purchases in the Western Hemisphere, particularly in the United States of America;

(vi) Food grants from FAO, grants of drugs and medicines from the World Health Organization and monetary loans and grants from the International Monetary Fund and the International Bank will be sought.

#### REPLY TO QUESTION 13

Since India is not responsible for the administration of any Non-Self-Governing Territory, the question does not arise.

### 8. Reply of the International Monetary Fund

The Secretary-General of the United Nations has requested the International Monetary Fund to submit a report which will help him to discharge the obligation laid upon him on 3 March 1948 by resolution 104 of the Economic and Social Council. This resolution requested the Secretary-General, *inter alia*, "to arrange with the appropriate specialized agencies for reports on plans which they have prepared and resources they will have available to assist members of the agency to prevent a decline in employment and economic activity". The following statement is submitted in response to the Secretary-General's request.

The general purposes of the International Monetary Fund as set out in article I of the Articles of Agreement include "the promotion and maintenance of high levels of employment and real income". This, however, is not one of the primary purposes of the Fund, but a wider purpose, for the attainment of which it is the Fund's duty "to facilitate the expansion and balanced growth of international trade". In its efforts to discharge its wider duties, the Fund is obviously bound to work in accordance with the methods and procedures prescribed in its constitution, and to be successful it requires moreover the active collaboration of its members. It is not possible to differentiate between those of its activities which are directly relevant to "the promotion and maintenance of high levels of employment and real income" and those which are concerned with the Fund's own more specific purposes.



Leaving on one side its jurisdiction in respect of exchange rates, the Fund has at its disposal two main instruments for influencing the policies of its members, and thereby facilitating the expansion and balanced growth of international trade, and indirectly promoting or maintaining high levels of employment and real income. It is, in the first place, authorized to make its financial resources available to members under adequate safeguards, and thus to provide them with the opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity. And secondly, as a permanent institution which provides machinery for consultation and collaboration on international monetary problems, its collective experience is available as the basis for advice on these problems to any of its members.

Both these instruments have an obvious relevance to the issues with which resolution 104 of the Economic and Social Council is concerned. They are not, however, in the view of the Fund, instruments to be kept in reserve until an emergency arises when some widespread threat of a decline in employment and economic activity may seem imminent. On the contrary, the Fund keeps them in constant use, and among the considerations borne in mind in determining how they shall be used in any particular instance, the desirability of avoiding a decline in employment and economic activity ranks high.

It is for many purposes convenient to distinguish between the transitional period through which the world is still passing, when in most countries there is no difficulty in maintaining high levels of employment, and the post-transitional period which will follow, when a sharp decline in demand may precipitate an unemployment crisis. The character of the post-transitional period will however be much influenced by what is being done at the present time. The steps taken now have a direct bearing upon the possibility of maintaining a satisfactory level of employment in the future, and the effectiveness of the Fund's current work would therefore be diminished if the distinction between the two periods were interpreted too rigidly. In making its resources available or offering advice to its members at the present time the Fund is concerned to ensure, so far as lies within its power, that situations shall not now be allowed to develop which will make it difficult to avoid a subsequent decline in economic activity. In an important sense, every Fund transaction, every Fund consultation, is thus directed towards the maintenance of high levels of employment.

The Fund's resources, on 17 September 1948, included gold to the amount of \$1,403 million and \$5,442 million in the currencies of its members, or in securities payable at face value in these currencies. Of this amount, \$1,440 million was in United States dollars. Additional sums will ultimately be payable by members whose par values have not yet been established, and the total resources of the Fund will then be



equivalent to close on \$8 thousand million. Up to the end of September 1948, the Fund had sold to twelve of its members currencies in the aggregate value of about \$640 million. The great majority of transactions have been in United States dollars, but the Fund has also sold sterling and Belgian francs.

In authorizing these sales, the Fund has made a careful study of the situation of members who desired to draw upon its resources, examining the causes of their balance of payments deficits, and the bearing of the par values of their currencies on their balance of payments position and prospects. It has been careful to emphasize to members that the purpose of the use of its resources is to give time to make necessary readjustments and not to avoid or postpone readjustments. It is well aware of the risk that if members were encouraged or allowed to make lavish use of its resources its supplies of the currencies which are most in demand might be exhausted just at the time when the need for them was most urgent. It has, for example, informed members that, with a view to ensuring that, at the end of the European Recovery Programme period, members participating in ERP should have unencumbered access to the resources of the Fund, they should, during the first year of the European Recovery Programme, request the purchase of United States dollars from the Fund only in exceptional or unforeseen cases.

With a view to conserving its resources for use in some hypothetical future crisis, the Fund might have severely restricted its transactions. By so doing, however, the risks of increased difficulties in the future would have been increased, and this would not have been in the best interests of either the Fund or its members. As has been pointed out in the *Annual Report* for the fiscal year ended 30 April 1948, "there is no formula which can be used to ascertain the probable duration of a disequilibrium in a member's balance of payments. Inevitably, judgment is involved in attempting to determine whether any particular drawing on the Fund will be outstanding for a relatively short or a relatively long period of time. The Board has had, within the limits of the Fund Agreement, to weigh the advantages from both its own point of view and the point of view of its members of conserving the resources of the Fund for use in the post-transitional period against the advantages which members could derive from some immediate use of the Fund's resources".

Any sharp decline in economic activity in any part of the world will necessarily have harmful repercussions elsewhere, and if such a decline were allowed to become widespread, many members of the Fund would be confronted with balance of payments difficulties which would probably be a powerful incentive for them to impose additional trade restrictions. The Fund is charged with a responsibility "to shorten the duration and lessen the degree of disequilibrium in the international balance of payments" of its members. It could not, however, be expected, even under the most favourable circumstances, by itself to do all that was necessary to restore the balance of the world economy after it had been



upset by widespread depression. Adjustments to such a situation, which would sometimes involve, *inter alia*, changes in the structure of production, would be needed both in the countries immediately affected by balance of payments difficulties and elsewhere.

Access to adequate international financial resources may make these adjustments easier, but the provision of finance is no guarantee that the adjustments will be made. Even if the quota and other limitations which restrict the drawing rights of members are left out of account, the resources of the Fund are not and cannot be large enough to give all its members the assurance simultaneously that in the event of a world crisis sufficient finance of the kind which they urgently need will be available to afford complete protection against balance of payments pressures.

The functions of the Fund in such circumstances would be to provide financial assistance to its members to meet their immediate difficulties and to consult with them as to exchange policy. It would thus help to prevent balance of payments pressures from becoming intolerable, and an opportunity would be afforded to avoid precipitate action which would be generally harmful and to work out, in collaboration with all the interested and responsible authorities, more far-reaching and permanent remedial measures. In the current work of the Fund the possibility of such a situation arising has not been neglected and while it is not a function of the Fund itself to elaborate policies which other authorities and institutions would then be left to execute, it will at all times be prepared to participate actively in constructive efforts of this kind.

Any attempt at the present time to estimate the volume of Fund resources which could advantageously be used by members at some hypothetical unknown future date would necessarily be highly speculative. A large number of unknown and important factors would have to be taken into account, and it is doubtful whether any useful purpose would be served by embarking upon such an estimate. Very much depends upon the policies adopted at the present time by the members of the Fund.

The Fund believes that in order to avoid the generation of conditions likely to depress the level of employment one of its most important functions is the examination in the ordinary course of its business of the balance of payments situation of its members, and the working out, in consultation with its members, of realistic policies which will at the same time meet current requirements and be effective in diminishing, if not in eliminating, the risk of a deterioration in its future international position. The Fund has no power to control the domestic policies of its members. It is ready at any time to discuss with members the policies which should now be followed in order to diminish the risks of subsequent declines in employment and economic activity, but the responsibility for elaborating and administering these policies necessarily rests with the members themselves.





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